United States Department of Defense

Agency Financial Report

Fiscal Year 2013

Financial Section

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

December 16, 2013

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER, DOD

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2013 and FY 2012 Basic Financial Statements (Report No. DODIG-2014-024)

We are providing the subject report to be published in the Department of Defense FY 2013 Agency Financial Report in conjunction with the Department of Defense FY 2013 and FY 2012 Basic Financial Statements provided to us in draft on November 18, 2013. The report includes our disclaimer of opinion on the basic financial statements and our required Report on Internal Control Over Financial Reporting and Compliance With Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements. We are issuing our disclaimer of opinion to accompany the Department of Defense FY 2013 and FY 2012 Basic Financial Statements, and therefore, this audit report should not be disseminated separately from those statements.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
4800 MARK CENTER DRIVE
ALEXANDRIA, VIRGINIA 22350-1500

December 16, 2013

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)/
CHIEF FINANCIAL OFFICER

SUBJECT: Independent Auditor's Report on the Department of Defense FY 2013 and FY 2012 Basic Financial Statements (Report No. DODIG-2014-024)

Report on the Basic Financial Statements

The Chief Financial Officers Act of 1990, as amended, requires the DoD Inspector General to audit the accompanying DoD Agency-wide Consolidated Balance Sheet as of September 30, 2013 and 2012, and the related Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Combined Statement of Budgetary Resources and notes to the basic statements (basic financial statements).

Management's Responsibility for the Annual Financial Statements

The annual financial statements are the responsibility of DoD management. Management is responsible for (1) preparing financial statements that conform with generally accepted accounting principles in the United States (U.S. GAAP); (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that they met broad control objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); (3) ensuring that DoD's financial management systems fully comply with Federal Financial Management Improvement Act of 1996 (FFMIA) requirements; and (4) complying with applicable laws and regulations.

Auditor's Responsibility

Our responsibility is to express an opinion on the basic financial statements based on conducting the audit in accordance with U.S. generally accepted government auditing standards and the Office of Management and Budget (OMB) Bulletin 14-02, "Audit Requirements for Federal Financial Statements,"

October 21, 2013. Based on the matters described in the Basis for Disclaimer of Opinion paragraph, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

Section 1008(d) of the FY 2002 National Defense Authorization Act limits the DoD Inspector General to performing only those audit procedures required by generally accepted government auditing standards that are consistent with the representations made by management. DoD management asserted to us that DoD FY 2013 and FY 2012 Basic Financial Statements would not substantially conform to U.S. GAAP and that DoD financial management and feeder systems were unable to adequately support material amounts on the basic financial statements as of September 30, 2013. Accordingly, we did not perform all the auditing procedures required by generally accepted government auditing standards and OMB Bulletin 14-02 to determine whether material amounts on the basic statements were presented fairly. We considered the scope limitation in forming our conclusions on the basic statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaiming of Opinion paragraph, we could not obtain sufficient evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the DoD FY 2013 and FY 2012 Basic Financial Statements. Thus, the basic financial statements may have undetected misstatements that are both material and pervasive.

Emphasis of Matter

As discussed in Note 26 to the basic statements, DoD restated its basic financial statement as of September 30, 2012, to comply with Statement of Federal Financial Accounting Standards (SFFAS) Number 43. We did not withdraw our auditor's report on the FY 2012 financial statements because we issued a disclaimer of opinion on the statements.

The FY 2012 Statement of Changes in Net Position (SCNP) contained separate columns for reporting of funds from dedicated collections. In FY 2013, the SCNP includes a reference to the "Funds from Dedicated Collections" footnote and no longer includes a separate column on the face of the statement. Additional information is provided in Notes 19 and 23.

Other Information in the Annual Financial Statements

We performed our audit to form an opinion on the basic financial statements as a whole. DoD presented the Management's Discussion and Analysis, Required Supplementary Stewardship Information, Required Supplementary Information, and Other Information for additional analysis as part of the annual financial statements; these elements are not required parts of the basic financial statements. We reviewed the other information for inconsistencies with the audited basic financial statements. Based on our limited review, we did not find any material inconsistencies between the information and the basic statements and applicable sections of OMB Circular No. A 136 (Revised), "Financial Reporting Requirements," October 21, 2013, and DoD Regulation 7000.14-R, "Financial Management Regulation," volume 6b, "Form and Content of DoD Audited Financial Statements" April 2013. However, we do not express an opinion or provide any assurance on the information.

Report on Other Legal and Regulatory Requirements, Contracts, and Grant Agreements

We limited our audit to determining compliance with provisions of applicable laws and regulations, contracts, and grant agreements that have direct and material effect on the basic financial statements and with OMB regulations and audit requirements for financial reporting because management represented that instances of noncompliance identified in prior audits continue to exist. Therefore, we did not determine whether DoD complied with all applicable laws and regulations, contracts, and grant agreements related to financial reporting. Providing an opinion on internal control and compliance with certain provisions of laws and regulations, contracts, and grant agreements was not an objective of our audit, and accordingly, we do not express such an opinion.

See the attachment for additional details on internal control and compliance with legal and other regulatory requirements.

Agency Comments and Our Evaluation

We provided a draft of this report to the Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, who provided technical comments that we have incorporated as appropriate. DoD officials expressed their continuing commitment to address the problems this report outlines.

This report is intended solely for the information and use of DoD management, the DoD Office of Inspector General, OMB, the U.S. Government Accountability Office, and Congress, and is not intended to be used, and should not be used, by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5945 (DSN 329-5945).

Lorin T. Venable

Lorin T. Venable, CPA
Assistant Inspector General
Financial Management and Reporting

Attachment: As stated

Report on Internal Control Over Financial Reporting

Internal Control Compliance

In planning our audit, we considered DoD's internal control over financial reporting. We did this to determine our procedures for auditing the basic financial statements appropriate to the circumstances for the purposes of expressing our opinion on the basic financial statements but not appropriate to the purpose of expressing an opinion on the effectiveness of the internal control. Accordingly, we do not express an opinion on internal control over financial reporting.

Management Responsibilities

Management is responsible for implementing and maintaining effective internal control to include providing reasonable assurance that DoD personnel accumulated, recorded, and reported accounting data properly; met the requirements of applicable laws and regulations; and safeguarded assets against misappropriation and abuse.

Auditor's Responsibilities

Our purpose was not to express an opinion on internal control over financial reporting. However, the following material weaknesses and significant deficiencies exist that could adversely affect DoD's financial operations.

Previously Identified Material Weaknesses

Management acknowledged that previously identified material weaknesses continued to exist in the following areas. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the DoD's financial statements will not be prevented, or detected and corrected on a timely basis.

Financial Management Systems. Statement of Federal Financial Accounting Concepts (SFFAC) No. 1, "Objectives of Federal Financial Reporting," requires financial management system controls that are adequate to ensure that transactions are executed in accordance with budgetary and financial laws and other requirements, consistent with the purposes authorized, and recorded in accordance with Federal accounting standards. SFFAC No. 1 also requires that

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financial management system controls ensure that assets are properly safeguarded to deter fraud, waste, and abuse and that performance measurement information is adequately supported.

The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, acknowledged that DoD financial management and feeder systems do not substantially comply with Federal financial management system requirements. The DoD financial management and feeder systems were not designed to adequately support various material amounts on the basic financial statements. These systemic deficiencies in financial management and feeder systems and inadequate DoD business processes prevent DoD from collecting and reporting financial and performance information that is accurate, reliable, and timely.

Fund Balance With Treasury. Statement of Federal Financial Accounting Standards (SFFAS) No. 1, "Accounting for Selected Assets and Liabilities"; the Treasury Manual; and DoD Regulation 7000.14-R, "DoD Financial Management Regulation," require DoD to resolve financial and accounting inconsistencies to accurately report Fund Balance with Treasury. However, inconsistencies continued to exist related to in-transit disbursements, unmatched disbursements, negative unliquidated obligations, and unreconciled differences between U.S. Treasury records and DoD accounting records.

Accounts Receivable. According to SFFAS No. 1, Federal entities should recognize a receivable when they establish a claim to cash or other assets against other entities, based on either legal provisions or goods and services provided. DoD acknowledged that it was unable to accurately record, report, collect, and reconcile intragovernmental accounts receivable as well as accounts receivable due from the public.

Inventory. SFFAS No. 3, "Accounting for Inventory and Related Property," requires DoD to use historical cost, the latest acquisition cost (adjusted for holding gains and losses), or moving average cost for valuing inventory. However, DoD acknowledged that the existing inventory value for most activities was not reported in accordance with U.S. GAAP, and the Department's legacy systems do not maintain the historical cost data necessary to comply with SFFAS No. 3. Additionally, DoD did not distinguish between Inventory Held for Sale and Inventory Held in Reserve for Future Sale as required by SFFAS No. 3.

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Operating Materials and Supplies. SFFAS No. 3 states that Operating Materials and Supplies must be expensed when the items are consumed. DoD acknowledged that significant amounts of Operating Materials and Supplies were expensed when purchased instead of when consumed. In addition, DoD could not accurately report the value of operating materials and supplies, which allows the potential for a misstatement in financial reporting.

General Property, Plant, and Equipment. SFFAS No. 6, "Accounting for Property, Plant, and Equipment," requires DoD to record General Property, Plant, and Equipment (General PP&E) at acquisition cost; capitalize improvement costs; and recognize depreciation expense. However, the cost and depreciation of DoD General PP&E was not reliably reported because of: (1) an accounting requirement that classified Military Equipment as General PP&E (such costs were previously expensed); (2) a lack of supporting documentation for aged General PP&E items; and (3) a failure to integrate most legacy property and logistics systems with acquisition and financial systems. In addition, DoD property and logistics systems were not designed to capture acquisition cost and the cost of modifications and upgrades, or to calculate depreciation.

DoD acknowledged that it did not meet U.S. GAAP for the financial reporting of personal property, and the documentation for personal property was neither accurate nor reliable. In addition, DoD did not have adequate internal controls in place to provide reasonable assurance that real property assets were identified and properly reported in its financial reports. DoD also acknowledged that its inability to accurately report the value of military equipment increases the risk that the financial statements are materially misstated.

Government Property in Possession of Contractors. SFFAS No. 6 requires that property and equipment in the possession of a contractor for use in accomplishing a contract be considered Government property. Such property should be accounted for based on the nature of the item, regardless of who has possession. DoD acknowledged that it was unable to comply with these requirements for Government Property in Possession of Contractors. As a result, the value of DoD property and material in the possession of contractors was not reliably reported.

Accounts Payable. According to SFFAS No. 5, "Accounting for Liabilities of the Federal Government," an entity recognizes a liability when one party receives goods or services in return for a promise to provide money or other resources in the

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future. DoD acknowledged that it did not meet accounting standards for the financial reporting of public accounts payable. DoD cannot support its accounts payable balances because it lacks standard procedures for recording, reporting, and reconciling the amounts between the financial, accounting, and reporting systems.

Environmental Liabilities. DoD acknowledged that its internal controls for reporting environmental liabilities did not provide reasonable assurance that cleanup costs for all of its ongoing, inactive, closed, and disposal operations were identified, consistently estimated, and appropriately reported. In addition, guidance and audit trails for estimating environmental liabilities were insufficient, and the inventory of ranges and operational activities was incomplete. DoD also acknowledged uncertainty regarding the accounting estimates used to calculate the reported environmental liabilities.

Statement of Net Cost. SFFAC No. 2, "Entity and Display," requires the Statement of Net Cost to provide an understanding of the net costs of each organization and each program. In addition, the Statement of Net Cost is to provide gross and net cost information that can be related to the amounts of outputs and outcomes for the programs and organization. DoD acknowledged the following deficiencies related to the Statement of Net Cost.

- The amounts presented for General Funds may not report actual accrued costs.
- Although the funds were generally recorded on an accrual basis for Working Capital Funds, the systems did not always capture actual costs in a timely manner.
- The Statement of Net Cost is not presented by programs that align with major goals and outputs described in DoD's strategic and performance plans, as required by the Government Performance and Results Act.
- Revenues and expenses were reported by appropriation categories because financial processes and systems do not collect costs in line with performance measures.

Intragovernmental Eliminations. DoD disclosed that it could not accurately identify most of its intragovernmental transactions by customer because its systems do not track the buyer and seller data needed to match related transactions. In addition, DoD was unable to fully reconcile intragovernmental transactions

with all Federal partners. DoD acknowledged that its inability to reconcile most intragovernmental transactions resulted in adjustments that cannot be fully supported.

Accounting Entries. DoD acknowledged that it continued to enter material amounts of unsupported accounting entries in its financial management systems because of inadequacies in the systems. The unsupported accounting entries present a material uncertainty regarding the reliability of the financial statements.

Reconciliation of Net Cost of Operations to Budget. SFFAS No. 7, "Accounting for Revenue and Other Financing Sources," requires a reconciliation of proprietary and budgetary information to assist users in understanding the relationship between the net cost of operations and the budgetary resources obligated by the entity during the period. DoD acknowledged that it was unable to reconcile budgetary obligations to net costs without making unsupported adjustments. Specifically, budgetary data do not agree with proprietary expenses and capitalized assets.

Previously Identified Significant Deficiency

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The following significant deficiency continues to exist.

Contingent Legal Liabilities. SFFAS No. 5, as amended by SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation," requires contingent legal liabilities to be disclosed if there is at least a reasonable possibility that a loss may be incurred. We noted that significant deficiencies continued to exist relating to the DoD process for reporting contingent legal liabilities. For example:

- DoD excluded from its legal representation letters at least 133 pending cases, with a total claim amount of $6.7 billion that individually did not exceed the DoD Agency-wide individual reporting threshold, but in aggregate exceeded this threshold.

- The legal representation letters from the DoD Office of General Counsel showed that DoD General Counsel was unable to express an opinion on the likely outcome of 31 of the 44 pending legal actions, totaling $13 trillion.*

These financial management deficiencies may cause inaccurate management information. As a result, DoD management decisions based in whole or in part on this information may be adversely affected. Financial information reported by DoD may also contain misstatements resulting from these deficiencies

Internal-control work we conducted as part of our prior audits would not necessarily disclose all material weakness and significant deficiencies.

Report on Compliance with Applicable Provisions of Laws, Regulations, Contracts, and Grant Agreements

U.S. generally accepted government auditing standards and OMB guidance require auditors to report on entities' compliance with selected provisions of laws and regulations, contracts, and grant agreements. Management is responsible for compliance with existing laws and regulations, contracts, and grant agreements related to financial reporting. Management has also acknowledged to us instances of noncompliance and that previously reported instances of noncompliance continue to exist. Therefore, we did not determine whether DoD complied with selected provisions of all applicable laws and regulations, contracts, and grant agreements related to financial reporting. We caution that other noncompliance may have occurred and not been detected. Furthermore, the results of our limited procedures may not be sufficient for other purposes. Our objective was not to, and we do not, express an opinion on compliance with applicable laws, regulations, contracts, and grant agreements. Because of other scope limitations discussed in this report, we limited our work to determining compliance with selected provisions of the applicable laws and regulations.

Antideficiency Act

Section 1341, title 31, United States Code (31. U.S.C. § 1341), 1990 limits DoD and its agents to making or authorizing expenditures or obligations that do not exceed

* After our review of the legal representation letters, DoD Office of General Counsel sent us an e-mail stating that the outcome of one additional pending legal action totaling about $10 billion has a remote chance of unfavorable outcome. The $10 billion was not included in the $13 trillion. This legal action was also not included in the final management schedule of information that was provided to us for our review.

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the available appropriations or funds. Additionally, DoD or its agents may not contract or obligate for the payment of money before an appropriation is made available for that contract or obligation unless otherwise authorized by law. As stated in 31 U.S.C § 1517 (2004), DoD and its agents are prohibited from making or authorizing expenditures of obligations exceeding an apportionment or the amount permitted by prescribed regulations. According to 31 U.S.C. § 1351 (2004), if an officer or employee of an executive agency violates the Antideficiency Act (ADA), the head of the agency must report immediately to the President and Congress all relevant facts and a statement of actions taken.

During FY 2013, DoD reported three ADA violations. Therefore, DoD did not comply with 1 U.S.C. §§ 1341(1990).

DoD Regulation 7000.14-R, "Financial Management Regulation," volume 14, chapter 7, "Antideficiency Act Report," November 2010, limits the time from identification to reporting of ADA violation to 15 months. One investigation of a potential ADA violation has been open for more than 15 months.

Compliance With FFMIA Requirements

FFMIA requires DoD to establish and maintain financial management systems that comply substantially with the Federal financial-management-systems requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. For areas in which an agency is not in compliance, OMB A-136 requires the agency to identify remediation activities planned or underway to bring the systems into substantial compliance with FFMIA. DoD is applying appropriate financial resources to achieve audit readiness. Financial-system resources include resources for designing and achieving an audit-ready systems environment, including new-system deployment costs, other than the Enterprise Resource Planning (ERP) systems. It also includes the resources to make needed and cost-effective changes to legacy systems that will be part of the audit-ready systems environment. ERPs will be an essential part of DoD's audit-readiness efforts. However, DoD reported in FIAR Plan Status Report, May 2013, that not all ERPs will be deployed by 2014 and 2017 audit readiness dates. Therefore, DoD will continue to rely on legacy systems to meet the audit-readiness dates.

For FY 2013, DoD did not fully comply with FFMIA. The Under Secretary of Defense (Comptroller)/Chief Financial Officer, DoD, acknowledged to us that DoD financial management and feeder systems could not provide adequate

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evidence supporting various material amounts on the financial statements and that previously identified material weaknesses continued. The financial management and feeder systems did not substantially comply with the Federal financial management systems requirements, Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level as of September 30, 2013.

Recommendations

This report does not include recommendations to correct the material weaknesses and instances of noncompliance with laws and regulations, because previous audit reports contained recommendations for corrective actions or because current audit projects will include appropriate recommendations.

PRINCIPAL FINANCIAL STATEMENTS AND NOTES

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements have been prepared to report the financial position and results of operations of the Department, pursuant to the requirements of 31 U.S.C. 3515(b). The statements are prepared from accounting records of the Department in accordance with Office of Management And Budget (OMB) Circular No. A-136 and, to the extent possible, U.S. Generally Accepted Accounting Principles (USGAAP). The statements, in addition to the financial reports, are used to monitor and control budgetary resources, which are prepared from the same records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The financial statements of the Department include four principal statements listed in Figure 19.

The financial statements reflect the aggregate financial posture of the Department and include both the proprietary (Federal accounting standards) and budgetary resources of the Department. The Department is large and complex with an asset base of $2.2 trillion, and more than 3 million military and civilian employees on installations in every state and around the world.

Figure 19. Four Principal Financial Statements

Statement	What Information It Provides
Balance Sheet	Reflects the Department's financial position as of the statement date (September 30, 2013). The assets are the amount of future economic benefits owned or managed by the Department. The liabilities are amounts owed by the Department. The net position is the difference between the assets and liabilities.
Statement of Net Cost	Shows separately the components of the net cost of the Department's operations for the period. Net cost is equal to the gross cost incurred by the Department less any exchange revenue earned from its activities.
Statement of Changes in Net Position	Presents the sum of the cumulative results of operations since inception and unexpended appropriations provided to the Department that remain unused at the end of the fiscal year. The statement focuses on how the net cost of operations is financed. The resulting financial position represents the difference between assets and liabilities as shown on the consolidated balance sheet.
Statement of Budgetary Resources	Provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the Department's budgetary general ledger in accordance with budgetary accounting rules.

Department of Defense Consolidated Balance Sheet Agency Wide As of September 30, 2013 and 2012	*Dollars in Millions* 2013 Consolidated	Restated 2012 Consolidated
ASSETS (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 482,661.7	$ 512,121.6
Investments (Note 4)	711,497.5	641,666.5
Accounts Receivable (Note 5)	1,284.2	1,439.6
Other Assets (Note 6)	1,757.6	1,583.2
Total Intragovernmental Assets	**$ 1,197,201.0**	**$ 1,156,810.9**
Cash and Other Monetary Assets (Note 7)	1,529.7	1,822.0
Accounts Receivable, Net (Note 5)	10,456.2	11,522.4
Loans Receivable (Note 8)	1,267.7	957.5
Inventory and Related Property, Net (Note 9)	253,997.5	243,299.7
General Property, Plant and Equipment, Net (Note 10)	639,611.9	601,458.0
Investments (Note 4)	3,333.9	3,255.0
Other Assets (Note 6)	72,466.9	66,601.2
TOTAL ASSETS	**$ 2,179,864.8**	**$ 2,085,726.7**
Stewardship Property, Plant & Equipment (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental:		
Accounts Payable (Note 12)	$ 1,574.7	$ 1,762.9
Debt (Note 13)	1,174.7	952.6
Other Liabilities (Note 15)	12,887.7	12,941.6
Total Intragovernmental Liabilities	**$ 15,637.1**	**$ 15,657.1**
Accounts Payable (Note 12)	20,149.1	19,492.0
Military Retirement and Other Federal Employment Benefits (Note 17)	2,280,567.8	2,323,924.3
Environmental and Disposal Liabilities (Note 14)	58,333.9	62,602.6
Loan Guarantee Liability (Note 8)	45.8	12.7
Other Liabilities (Note 15)	37,393.5	36,308.1
TOTAL LIABILITIES	**$ 2,412,127.2**	**$ 2,457,996.8**
Commitments & Contingencies (Note 16)		
NET POSITION		
Unexpended Appropriations – Other Funds	$ 499,735.3	$ 528,955.6
Cumulative Results of Operations – Funds From Dedicated Collections (Note 23)	12,707.8	11,967.6
Cumulative Results of Operations – Other Funds	(744,705.5)	(913,193.3)
TOTAL NET POSITION	**$ (232,262.4)**	**$ (372,270.1)**
TOTAL LIABILITIES AND NET POSITION	**$ 2,179,864.8**	**$ 2,085,726.7**

The accompanying notes are an integral part of these financial statements.

Department of Defense Consolidated Statement of Net Cost Agency Wide For the Years Ended September 30, 2013 and 2012	Dollars in Millions 2013 Consolidated	 2012 Consolidated
Program Costs		
Gross Costs	**$ 695,856.1**	**$ 781,731.1**
Military Retirement Benefits	64,422.3	85,570.4
Civil Works	9,756.7	10,967.2
Military Personnel	146,052.1	150,330.5
Operations, Readiness & Support	292,744.2	295,704.1
Procurement	76,216.1	130,578.8
Research, Development, Test & Evaluation	70,321.0	76,772.6
Family Housing & Military Construction	36,343.7	31,807.5
(Less: Earned Revenue)	(75,009.7)	(83,304.8)
Net Cost before Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	**$ 620,846.4**	**$ 698,426.3**
Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	(62,838.6)	70,427.3
Net Cost of Operations	**$ 558,007.8**	**$ 768,853.6**

The accompanying notes are an integral part of these financial statements.

Department of Defense Consolidated Statement of Changes in Net Position Agency Wide For the Years Ended September 30, 2013 and 2012	*Dollars in Millions* 2013 Consolidated	Restated 2012 Consolidated
Cumulative Results Of Operations		
Beginning Balances	$ (901,225.7)	$ (861,349.6)
Prior Period Adjustments:		
Changes in accounting principles	0.0	0.0
Corrections of errors	0.0	1,005.7
Beginning balances, as adjusted (Includes Funds from Dedicated Collections – See Note 23)	**$ (901,225.7)**	**$ (860,343.9)**
Budgetary Financing Sources:		
Appropriations used	687,146.0	730,579.5
Nonexchange revenue	2,890.5	2,689.4
Donations and forfeitures of cash and cash equivalents	75.1	29.7
Transfers in/out without reimbursement	142.8	133.6
Other	(84.2)	(146.4)
Other Financing Sources		
Donations and forfeitures of property	9.9	37.5
Transfers in/out without reimbursement	(14.6)	66.1
Imputed financing	4,896.8	5,048.1
Other	32,173.5	(10,465.7)
Total Financing Sources	**$ 727,235.8**	**$ 727,971.8**
Net Cost of Operations (+/-)	558,007.8	768,853.6
Net Change	**$ 169,228.0**	**$ (40,881.8)**
Cumulative Results of Operations (Includes Funds from Dedicated Collections – See Note 23)	**$ (731,997.7)**	**$ (901,225.7)**
Unexpended Appropriations		
Beginning Balances (Includes Funds from Dedicated Collections – See Note 23)	528,955.6	541,329.1
Prior Period Adjustments:	0.0	0.0
Correction of Error	0.0	(955.1)
Beginning balances, as adjusted	**$ 528,955.6**	**$ 540,374.0**
Budgetary Financing Sources:		
Appropriations received	710,120.8	736,782.2
Appropriations transferred in/out	(208.9)	(391.3)
Other adjustments	(51,986.2)	(17,229.8)
Appropriations used	(687,146.0)	(730,579.5)
Total Budgetary Financing Sources (Includes Funds from Dedicated Collections – See Note 23)	**$ (29,220.3)**	**$ (11,418.4)**
Unexpended Appropriations (Includes Funds from Dedicated Collections – See Note 23)	**$ 499,735.3**	**$ 528,955.6**
Net Position	**$ (232,262.4)**	**$ (372,270.1)**

The accompanying notes are an integral part of these financial statements.

Department of Defense Combined Statement of Budgetary Resources Agency Wide For the Years Ended September 30, 2013 and 2012 Page 1 of 2 *Dollars in Millions*	Budgetary Financing Accounts 2013 Combined	Budgetary Financing Accounts 2012 Combined	Non-Budgetary Financing Accounts 2013 Combined	Non-Budgetary Financing Accounts 2012 Combined
Budgetary Resources				
Unobligated balance, brought forward, October 1	$ 145,692.5	$ 162,271.1	$ 15.5	$ 17.5
Unobligated balance brought forward, October 1, as adjusted	145,692.5	162,271.1	15.5	17.5
Recoveries of prior year unpaid obligations	63,172.6	65,533.9	0.0	0.0
Other changes in unobligated balance	(13,817.9)	(12,952.1)	0.0	0.0
Unobligated balance from prior year budget authority, net	195,047.2	214,852.9	15.5	17.5
Appropriation (discretionary and mandatory)	733,535.9	792,178.8	0.0	0.0
Borrowing Authority (discretionary and mandatory)	0.0	0.0	26.9	172.6
Contract authority (discretionary and mandatory)	65,506.0	80,486.2	0.0	0.0
Spending authority from offsetting collections (discretionary and mandatory)	103,712.7	117,242.4	83.2	62.6
Total Budgetary Resources	**$ 1,097,801.8**	**$ 1,204,760.3**	**$ 125.6**	**$ 252.7**
Status of Budgetary Resources				
Obligations incurred	$ 953,988.4	$ 1,059,067.8	$ 78.8	$ 237.2
Unobligated balance, end of year:				
Apportioned	109,896.8	115,696.1	0.0	1.6
Exempt from Apportionment	4,046.6	3,976.1	0.0	0.0
Unapportioned	29,870.0	26,020.3	46.8	13.9
Total unobligated balance, end of year	**$ 143,813.4**	**$ 145,692.5**	**$ 46.8**	**$ 15.5**
Total Budgetary Resources	**$ 1,097,801.8**	**$ 1,204,760.3**	**$ 125.6**	**$ 252.7**
Change in Obligated Balance				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	$ 468,570.2	$ 454,926.2	$ 541.8	$ 569.1
Obligations incurred	953,988.4	1,059,067.8	78.8	237.2
Outlays (Gross)	(922,020.8)	(979,889.9)	(319.9)	(264.5)
Recoveries of prior year unpaid obligations	(63,172.6)	(65,533.9)	0.0	0.0
Unpaid obligations, end of year	437,365.2	468,570.2	300.7	541.8
Uncollected payments:				
Uncollected pymts, Fed sources, brought forward, Oct 1	(77,953.4)	(75,184.3)	(83.5)	(99.9)
Change in uncollected pymts, Fed sources	749.5	(2,769.1)	31.1	16.4
Uncollected pymts, Fed sources, end of year	(77,203.9)	(77,953.4)	(52.4)	(83.5)
Memorandum Entries:				
Obligated balances, start of year	**$ 390,616.8**	**$ 379,741.9**	**$ 458.3**	**$ 469.2**
Obligated balance, end of year	**$ 360,161.3**	**$ 390,616.8**	**$ 248.3**	**$ 458.3**

The accompanying notes are an integral part of these financial statements.

Department of Defense Combined Statement of Budgetary Resources Agency Wide For the Years Ended September 30, 2013 and 2012 **Page 2 of 2** *Dollars in Millions*	**Budgetary Financing Accounts**		**Non-Budgetary Financing Accounts**	
	2013 Combined	**2012 Combined**	**2013 Combined**	**2012 Combined**
Budgetary Authority and Outlays, Net:				
Budget Authority, gross (discretionary and mandatory)	$ 902,754.6	$ 989,907.4	$ 110.1	$ 235.2
Actual offsetting collections (discretionary and mandatory)	(167,910.0)	(190,586.0)	(126.7)	(92.6)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	749.5	(2,769.1)	31.1	16.4
Anticipated offsetting collections (discretionary and mandatory)	0.0	0.0	0.0	0.0
Budget Authority, net (discretionary and mandatory)	**$ 735,594.1**	**$ 796,552.3**	**$ 14.5**	**$ 159.0**
Outlays, gross (discretionary and mandatory)	$ 922,020.8	$ 979,889.9	$ 319.9	$ 264.5
Actual offsetting collections (discretionary and mandatory)	(167,910.0)	(190,586.0)	(126.7)	(92.6)
Outlays, net (discretionary and mandatory)	754,110.8	789,303.9	193.2	171.9
Distributed offsetting receipts	(82,767.6)	(79,238.4)	0.0	0.0
Agency Outlays, net (discretionary and mandatory)	**$ 671,343.2**	**$ 710,065.5**	**$ 193.2**	**$ 171.9**

The accompanying notes are an integral part of these financial statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

1.A. Basis of Presentation

These financial statements have been prepared to report the financial position and results of operations of the Department of Defense (DoD), as required by the *Chief Financial Officers Act of 1990*, expanded by the *Government Management Reform Act of 1994*, and other appropriate legislation. The financial statements have been prepared from the books and records of the Department in accordance with, to the extent possible, U.S. generally accepted accounting principles (USGAAP) promulgated by the Federal Accounting Standards Advisory Board (FASAB); the *(OMB) Circular No. A-136, "Financial Reporting Requirements;"* and the DoD, *Financial Management Regulation (FMR)*. The accompanying financial statements account for all resources for which the Department is responsible unless otherwise noted. Information relative to classified assets, programs, and operations is excluded from the statements or otherwise aggregated and reported in such a manner that it is not discernible.

The Department is unable to fully implement all elements of USGAAP and *OMB Circular No. A-136*, due to limitations of financial and nonfinancial management processes and systems that support the financial statements. The Department derives reported values and information for major asset and liability categories largely from nonfinancial systems, such as inventory and logistics systems. These systems were designed to support reporting requirements for maintaining accountability over assets and reporting the status of federal appropriations rather than preparing financial statements in accordance with USGAAP. The Department continues to implement process and system improvements addressing these limitations.

The Department has 13 auditor-identified material weaknesses: (1) Financial Management Systems; (2) Fund Balance with Treasury (FBWT); (3) Accounts Receivable; (4) Inventory; (5) Operating Materials and Supplies (OM&S); (6) General Property, Plant, and Equipment; (7) Government Property in Possession of Contractors; (8) Accounts Payable; (9) Environmental Liabilities; (10) Statement of Net Cost; (11) Intragovernmental Eliminations; (12) Accounting Entries; and (13) Reconciliation of Net Cost of Operations to Budget.

1.B. Mission of the Reporting Entity

The Department was established by the National Security Act of 1947. The Department provides the military forces needed to deter war and protect the security of our country. Since the creation of America's first army in 1775, the Department and predecessor organizations have evolved into a global presence with a worldwide infrastructure dedicated to defending the United States by deterring and defeating aggression and coercion in critical regions.

The Department includes the Military Departments and the Defense Agencies. The Military Departments consist of the Army, the Navy (of which the Marine Corps is a component), and the Air Force. The Defense Agencies provide support services commonly used throughout the Department.

1.C. Appropriations and Funds

The Department receives appropriations and funds as general, working capital (revolving), trust, special, and deposit funds. The Department uses these appropriations and funds to execute its missions and subsequently report on resource usage.

General Funds are used for financial transactions funded by congressional appropriations, including personnel, operation and maintenance, research and development, procurement, and military construction. These general funds also include supplemental funds enacted by the American Recovery and Reinvestment Act (Recovery Act) of 2009. Details relating to Recovery Act appropriated funds are available on-line at *DoD Information Related to the American Recovery and Reinvestment Act of 2009*.

Working capital funds (WCF) received funding to establish an initial corpus through an appropriation or a transfer of resources from existing appropriations or funds. The corpus finances operations and transactions that flow through the fund. The WCF resources the goods and services sold to customers on a reimbursable basis and maintains the corpus. Reimbursable receipts fund future operations and generally are available in their entirety for use without further congressional action. At various times, Congress provides additional appropriations to supplement the WCF as an infusion of cash when revenues are inadequate to cover costs within the corpus.

Trust funds contain receipts and expenditures of funds held in trust by the government for use in carrying out specific purposes or programs in accordance with the terms of the donor, trust agreement, or statute. Special fund accounts are used to record government receipts reserved for a specific purpose. Certain trust and special funds may be designated as funds from dedicated collections. Funds from dedicated collections are financed by specifically identified revenues, required by statute to be used for designated activities, benefits or purposes, and remain available over time. The Department is required to separately account for and report on the receipt, use and retention of revenues and other financing sources for funds from dedicated collections.

Deposit funds are used to record amounts held temporarily until paid to the appropriate government or public entity. They are not Department funds, and as such, are not available for the Department’s operations. The Department is acting as an agent or custodian for funds awaiting distribution.

The Department is a party to allocation transfers with other federal agencies as a transferring (parent) entity or receiving (child) entity. An allocation transfer is an entity’s legal delegation of authority to obligate budget authority and outlay funds on its behalf. Generally, all financial activity related to allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity. Exceptions to this general rule apply to specific funds for which OMB has directed that all activity be reported in the financial statements of the child entity. These exceptions include U.S. Treasury-Managed Trust Funds, Executive Office of the President (EOP), and all other funds specifically designated by OMB.

The Department receives allocation transfers from the following agencies: Departments of Agriculture, Interior, Energy, and Transportation; the Appalachian Regional Commission; and the Federal Highway Administration.

Additionally, the Department receives allocation transfers from certain funds meeting the OMB exception and all related activity is included in the Department's financial statements. The exceptions reported by the Department include South Dakota Terrestrial Wildlife Habitat Restoration, Inland Waterways and Harbor Maintenance. The Department receives allocation transfers for the Security Assistance programs that meet the OMB exceptions for EOP funds. These funds are reported separately from the DoD financial statements based on an agreement with OMB.

As a parent, the Department allocates funds to the Departments of Transportation and Agriculture, and reports all related activity in these financial statements.

1.D. Basis of Accounting

The Department's financial management systems are unable to meet all full accrual accounting requirements. Many of the Department's financial and nonfinancial feeder systems and processes were designed and implemented prior to the issuance of USGAAP. These systems were not designed to collect and record financial information on the full accrual accounting basis as required by USGAAP. Most of the Department's financial and nonfinancial legacy systems were designed to record information on a budgetary basis.

The Department's financial statements and supporting trial balances are compiled from the underlying financial data and trial balances of the Military Services and Defense Agencies and their sub-entities. The underlying data is largely derived from budgetary transactions (obligations, disbursements, and collections), from nonfinancial feeder systems, and accruals made for major items such as payroll expenses, accounts payable, and environmental liabilities. Some of the sub-entity level trial balances may reflect known abnormal balances resulting largely from business and system processes. At the consolidated level these abnormal balances may not be evident. Disclosures of abnormal balances are made in the applicable footnotes, but only to the extent that the abnormal balances are evident at the consolidated level.

The Department is determining the actions required to bring financial and nonfinancial feeder systems and processes into compliance with USGAAP. One such action is the current revision of accounting systems to record transactions based on the U.S. Standard General Ledger (USSGL). Until all of the Department's financial and nonfinancial feeder systems and processes are able to collect and report financial information as required by USGAAP, the Department's financial data will be derived from budgetary transactions, data from nonfinancial feeder systems, and accruals.

1.E. Revenues and Other Financing Sources

The Department receives congressional appropriations as financing sources for general funds, and on occasion, will also receive congressional appropriations for working capital funds. These funds either expire annually, some on a multi-year basis, or do not expire. When authorized by legislation, these appropriations are supplemented by revenues generated by sales of goods or services. The Department recognizes revenue as a result of costs incurred for goods and services provided to other federal agencies and the public. Full-cost pricing is the Department's standard policy for services provided as required by *OMB Circular A-25*, "User Charges." The Department recognizes revenue when earned

within the constraints of its current system capabilities. In some instances, revenue is recognized when bills are issued.

Depot Maintenance and Ordnance WCF activities recognize revenue according to the percentage of completion method. Supply Management WCF activities recognize revenue from the sale of inventory items.

The Department does not include nonmonetary support provided by U.S. allies for common defense and mutual security in amounts reported in the Statement of Net Cost and Note 21, Reconciliation of Net Cost of Operations to Budget. The U.S. has cost sharing agreements with countries having a mutual or reciprocal defense agreement, where U.S. troops are stationed, or where the U.S. Fleet is in a port.

1.F. Recognition of Expenses

For financial reporting purposes, the Department's policy requires the recognition of operating expenses in the period incurred. Current financial and nonfinancial feeder systems were not designed to collect and record financial information on the full accrual accounting basis. Estimates are made for major items such as payroll expenses, accounts payable, environmental liabilities, and unbilled revenue. In the case of OM&S, operating expenses are generally recognized when the items are purchased. Efforts are underway to transition to the consumption method for recognizing OM&S expenses. Under the consumption method, OM&S would be expensed when consumed. Due to system limitations, in some instances expenditures for capital and other long-term assets may be recognized as operating expenses. The Department continues to implement process and system improvements to address these limitations.

1.G. Accounting for Intragovernmental Activities

Accounting standards require that an entity eliminate intra-entity activity and balances from consolidated financial statements in order to prevent overstatement for business with itself. However, the Department cannot accurately identify intragovernmental transactions by customer because the Department's systems do not track buyer and seller data at the transaction level. Generally, seller entities within the Department provide summary seller-side balances for revenue, accounts receivable, and unearned revenue to the buyer-side internal accounting offices. In most cases, the buyer-side records are adjusted to agree with the Department's seller-side balances and are then eliminated. The Department is implementing replacement systems and a standard financial information structure which will incorporate the necessary elements that will enable the Department to correctly report, reconcile, and eliminate intragovernmental balances.

The Treasury Financial Manual Part 2 – Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," provides guidance for reporting and reconciling intragovernmental balances. While the Department is unable to fully reconcile intragovernmental transactions with all federal agencies, the Department is able to reconcile balances pertaining to investments in federal securities, borrowings from the U.S. Treasury and the Federal Financing Bank, Federal Employees' Compensation Act transactions with the Department of Labor, and benefit program transactions with the Office of Personnel Management.

The Department's proportionate share of public debt and related expenses of the Federal Government is not included. The Federal Government does not apportion debt and related costs to federal agencies. The Department's financial statements do not report any public debt, interest, or source of public financing, whether from issuance of debt or tax revenues. Generally, financing for the construction of the Department's facilities is obtained through appropriations. To the extent this financing ultimately may have been obtained through the issuance of public debt, interest costs have not been capitalized since the U.S. Treasury does not allocate such costs to the Department.

1.H. Transactions with Foreign Governments and International Organizations

Each year, the Department sells defense articles and services to foreign governments and international organizations under the provisions of the *Arms Export Control Act of 1976*. Under the provisions of the Act, the Department has authority to sell defense articles and services to foreign countries and international organizations generally at no profit or loss to the Federal Government. Payment in U.S. dollars is required in advance.

1.I. Funds with the U.S. Treasury

The Department's monetary resources are maintained in U.S. Treasury accounts. The disbursing offices of Defense Finance and Accounting Service (DFAS), the Military Departments, the U.S. Army Corps of Engineers (USACE), and the Department of State's financial service centers process the majority of the Department's cash collections, disbursements, and adjustments worldwide. Each disbursing station prepares monthly reports to the U.S. Treasury on checks issued, electronic fund transfers, interagency transfers, and deposits.

In addition, DFAS sites and the USACE Finance Center submit reports to the U.S. Treasury by appropriation on interagency transfers, collections received, and disbursements issued. The U.S. Treasury records these transactions to the applicable FBWT account. On a monthly basis, the Department's FBWT is adjusted to agree with the U.S. Treasury accounts.

1.J. Cash and Other Monetary Assets

Cash is the total of cash resources under the control of the Department which includes coin, paper currency, negotiable instruments, and amounts held for deposit in banks and other financial institutions. Foreign currency consists of the total U.S. dollar equivalent of both purchased and nonpurchased foreign currencies held in foreign currency fund accounts. Foreign currency is valued using the U.S. Treasury prevailing rate of exchange.

The majority of cash and all foreign currency is classified as "nonentity" and is restricted. Amounts reported consist primarily of cash and foreign currency held by disbursing officers to carry out their paying, collecting, and foreign currency accommodation exchange missions.

The Department conducts a significant portion of operations overseas. Congress established a special account to handle the gains and losses from foreign currency transactions for five general fund appropriations: (1) operations and maintenance; (2) military personnel; (3) military construction; (4) family housing operation and maintenance; and (5) family

housing construction. The gains and losses are calculated as the variance between the exchange rate current at the date of payment and a budget rate established at the beginning of each fiscal year. Foreign currency fluctuations related to other appropriations require adjustments to the original obligation amount at the time of payment. The Department does not separately identify foreign currency fluctuation transactions.

1.K. Accounts Receivable

Accounts receivable from other federal entities or the public include: accounts receivable, claims receivable, and refunds receivable. Allowances for uncollectible accounts due from the public are based upon an analysis of collection experience. The Department does not recognize an allowance for estimated uncollectible amounts from other federal agencies. Claims against other federal agencies are to be resolved between the agencies in accordance with dispute resolution procedures defined in the Intragovernmental Business Rules published in the Treasury Financial Manual.

1.L. Direct Loans and Loan Guarantees

The Department operates a direct loan and loan guarantee program authorized by the *National Defense Authorization Act for FY 1996* (Public Law (PL) 104-106, Section 2801). The Act includes a series of authorities that allow the Department to work with the private sector to renovate military housing. The Department's goals are to obtain private capital to leverage government dollars, make efficient use of limited resources, and use a variety of private sector approaches to build and renovate military housing faster and at a lower cost to the American taxpayers.

The Act also provides the Department with a variety of authorities to obtain private sector financing and expertise to improve military housing. The Department uses these authorities individually or in combination. They include guarantees (both loan and rental), conveyance/leasing of existing property and facilities, differential lease payments, investments (both limited partnerships and stock/bond ownership), and direct loans.

National Defense Authorization Act for FY 2005 (PL 108-375, Section 2805) provided permanent authorities to the Military Housing Privatization Initiative (MHPI).

The Department operates the Armament Retooling and Manufacturing Support Initiative under *Title 10 United States Code 4551-4555*. This loan guarantee program was designed to encourage commercial use of inactive government facilities. The revenue generated from property rental offsets the cost of maintaining these facilities.

The Department administers the Foreign Military Financing program on behalf of the EOP. This program is authorized by sections 23 and 24 of the *Arms Export Control Act of 1976*, as amended, PL 90-629, as amended, and section 503(a). This program provides loans to help countries purchase U.S. produced weapons, defense equipment, services, or military training. The direct loans and loan guarantees related to Foreign Military Sales are not included in these financial statements, per the Department's agreement with OMB; this information is provided separately as other information.

The *Federal Credit Reform Act of 1990* governs all amended direct loan obligations and loan guarantee commitments made after FY 1991.

1.M. Inventories and Related Property

The Department values approximately 84 percent of resale inventory using the moving average cost method. An additional 13 percent (fuel inventory) is reported using the first-in-first-out method. The Department reports the remaining 3 percent of resale inventories at an approximation of historical cost using latest acquisition cost adjusted for holding gains and losses. The latest acquisition cost method is used because legacy inventory systems were designed for materiel management rather than accounting. Although these systems provide visibility and accountability over inventory items, they do not maintain historical cost data necessary to comply with *Statement of Federal Financial Accounting Standards (SFFAS) No. 3, "Accounting for Inventory and Related Property."* Additionally, these systems cannot produce financial transactions using the USSGL, as required by the *Federal Financial Management Improvement Act of 1996 (PL 104-208)*. The Department is continuing to transition the balance of the inventories to the moving average cost method through the use of new inventory systems. Most transitioned balances, however, were not baselined to auditable historical cost and remain noncompliant with *SFFAS No. 3*.

The Department manages only military or government-specific materiel under normal conditions. Materiel is a unique term that relates to military force management, and includes items such as ships, tanks, self-propelled weapons, aircraft, etc., and related spares, repair parts, and support equipment. Items commonly used in and available from the commercial sector are not managed in the Department's materiel management activities. Operational cycles are irregular, and the military risks associated with stock-out positions have no commercial parallel. The Department holds materiel based on military need and support for contingencies. The Department is currently developing a methodology to be used to account for "inventory held for sale" and "inventory held in reserve for future sale."

Related property includes OM&S and stockpile materiel. The OM&S, including munitions not held for sale, are valued at standard purchase price. The Department uses both the consumption method and the purchase method of accounting for OM&S. Items that are centrally managed and stored, such as ammunition and engines, are generally recorded using the consumption method and are reported on the Balance Sheet as OM&S. When current systems cannot fully support the consumption method, the Department uses the purchase method. Under this method, materiel and supplies are expensed when purchased. During FY 2013 and FY 2012, the Department expensed significant amounts using the purchase method because the systems could not support the consumption method or management deemed that the item was in the hands of the end user. This is a material weakness for the Department and long-term system corrections are in process. Once the proper systems are in place, these items will be accounted for under the consumption method of accounting.

The Department determined that the recurring high dollar-value of OM&S in need of repair is material to the financial statements and requires a separate reporting category. Many high-dollar items, such as aircraft engines, are categorized as OM&S rather than military equipment.

The Department recognizes excess, obsolete, and unserviceable inventory and OM&S at a net realizable value of $0 pending development of an effective means of valuing such materiel.

Inventory available and purchased for resale includes consumable spare and repair parts, and repairable items owned and managed by the Department. This inventory is retained to support military or national contingencies. Inventory held for repair is damaged inventory that requires repair to make it suitable for sale. Often, it is more economical to repair these items rather than to procure them. The Department often relies on weapon systems and machinery no longer in production. As a result, the Department supports a process that encourages the repair and rebuilding of certain items. This repair cycle is essential to maintaining a ready, mobile, and armed military force. Work in process balances include: (1) costs related to the production or servicing of items, including direct material, labor, and applied overhead; (2) the value of finished products or completed services that are yet to be placed in service; and (3) munitions in production and depot maintenance work with associated costs incurred in the delivery of maintenance services.

1.N. Investments in U.S. Treasury Securities

The Department reports investments in U.S. Treasury securities at cost, net of amortized premiums or discounts. Premiums or discounts are amortized over the term of the investments using the effective interest rate method or another method that yields similar results. The Department's intent is to hold investments to maturity unless they are needed to finance claims or otherwise sustain operations. Consequently, a provision is not made for unrealized gains or losses on these securities.

The Department invests in nonmarketable market-based U.S. Treasury securities issued to federal agencies by the U.S. Treasury's Bureau of Fiscal Services. These securities are not traded on any financial exchange but are priced consistently with publically traded U.S. Treasury securities.

The Department's net investments are held by various trust and special funds. These funds include the Military Retirement Fund, Medicare-Eligible Retiree Health Care Fund, Other Defense Organizations General Fund trust and special funds, donations (gift funds), and the U.S. Treasury managed trust funds reported by USACE including the South Dakota Terrestrial Habitat Restoration, Inland Waterways, and Harbor Maintenance Trust Funds.

Other investments represent joint ventures with private developers constructing or improving military housing on behalf of the Department under the authority of MHPI, authorized by *PL 104-106, Section 2801*. These investments do not require market value disclosure. The Department's potential losses on these ventures are limited to the amounts invested.

1.O. General Property, Plant and Equipment

The Department uses the estimated historical cost for valuing military equipment. The Department identified the universe of military equipment by accumulating information relating to program funding and associated military equipment, equipment useful life, program acquisitions, and disposals to establish a baseline. The military equipment baseline is updated using expenditure, acquisition, and disposal information.

The Department's General Property, Plant, and Equipment (PP&E) capitalization threshold is $100 thousand except for real property, which is $20 thousand. The Department has not fully implemented the threshold for real property; therefore, the Department is primarily using the capitalization threshold of $100 thousand for General PP&E, and most real property.

With the exception of USACE Civil Works and WCF, General PP&E assets are capitalized at historical acquisition cost when an asset has a useful life of two or more years and when the acquisition cost equals or exceeds the Department's capitalization threshold. The Department also requires the capitalization of improvements to existing General PP&E assets if the improvements equal or exceed the capitalization threshold and extend the useful life or increase the size, efficiency, or capacity of the asset. The Department depreciates all General PP&E, other than land, on a straight-line basis.

The WCF capitalizes all PP&E used in the performance of their mission. These assets are capitalized as General PP&E, whether or not they meet the definition of any other PP&E category.

The USACE Civil Works General PP&E is capitalized at acquisition cost plus capitalized improvements when an asset has a useful life of two or more years and the acquisition cost exceeds $25 thousand. The exception is buildings and structures related to hydropower projects, which are capitalized regardless of cost.

When it is in the best interest of the government, the Department provides government property to contractors to complete contract work. The Department either owns or leases such property, or it is purchased directly by the contractor for the government based on contract terms. When the value of contractor-procured General PP&E meets or exceeds the Department's capitalization threshold, federal accounting standards require that it be reported on the Department's Balance Sheet.

To provide appropriated General PP&E information for financial statement reporting, the Department developed a policy and a reporting process for contractors with government furnished equipment.

1.P. Advances and Prepayments

When advances are permitted by law, legislative action, or presidential authorization, the Department's policy is to record advances or prepayments in accordance with USGAAP. As such, payments made in advance of the receipt of goods and services are reported as an asset on the Balance Sheet. The Department's policy is to expense and/or properly classify assets when the related goods and services are received. The Department has not fully implemented this policy primarily due to system limitations.

1.Q. Leases

Lease payments for the rental of equipment and operating facilities are classified as either capital or operating leases. When a lease is essentially equivalent to an installment purchase of property (a capital lease), and the value equals or exceeds the current capitalization threshold, the Department records the applicable asset as though purchased, with an offsetting liability, and depreciates it. The Department records the asset and liability at the lesser of the present value of the rental and other lease payments during the lease term (excluding portions representing executory costs paid to the lessor) or the asset's fair market value. The discount rate for the present value calculation is either the lessor's implicit interest rate or the government's incremental borrowing rate at the inception of the lease. The Department, as the lessee, receives the use and possession of leased property, for example real estate or equipment, from a lessor in exchange for a payment of funds. An

operating lease does not substantially transfer all the benefits and risks of ownership. Payments for operating leases are expensed over the lease term as they become payable.

Office space and leases entered into by the Department are the largest component of operating leases and are based on costs gathered from existing leases, General Services Administration bills, and interservice support agreements. Future year projections use the Consumer Price Index.

1.R. Other Assets

Other assets include those assets, such as military and civil service employee pay advances, travel advances, and certain contract financing payments that are not reported elsewhere on the Department's Balance Sheet.

The Department conducts business with commercial contractors under two primary types of contracts: fixed price and cost reimbursable. To alleviate the potential financial burden on the contractor that long-term contracts can cause, the Department may provide financing payments. Contract financing payments are defined in the Federal Acquisition Regulation, Part 32, as authorized disbursements to a contractor prior to acceptance of supplies or services by the Government. Contract financing payment clauses are incorporated in the contract terms and conditions and may include advance payments, performance-based payments, commercial advances and interim payments, progress payments based on cost, and interim payments under certain cost reimbursement contracts. It is the Department's policy to record certain contract financing payments as other assets. The Department has not fully implemented this policy primarily due to system limitations.

Contract financing payments do not include invoice payments, payments for partial deliveries, lease and rental payments, or progress payments based on a percentage or stage of completion. The Defense Federal Acquisition Regulation Supplement authorizes progress payments based on a percentage or stage of completion only for construction of real property, shipbuilding, and ship conversion, alteration, or repair. Progress payments based on percentage or stage of completion are reported as Construction in Progress.

1.S. Contingencies and Other Liabilities

The *SFFAS No. 5, "Accounting for Liabilities of the Federal Government,"* as amended by *SFFAS No. 12, "Recognition of Contingent Liabilities Arising from Litigation,"* defines a contingency as an existing condition, situation, or set of circumstances that involves an uncertainty as to possible gain or loss. The uncertainty will be resolved when one or more future events occur or fail to occur. The Department recognizes contingent liabilities when past events or exchange transactions occur, a future loss is probable, and the loss amount can be reasonably estimated.

Financial statement reporting is limited to disclosure when conditions for liability recognition do not exist, but there is at least a reasonable possibility of incurring a loss or additional losses. The Department's risk of loss and resultant contingent liabilities arise from pending or threatened litigation or claims and assessments due to events such as aircraft, ship and vehicle accidents; medical malpractice; property or environmental damages; and contract disputes.

Other liabilities also arise as a result of anticipated disposal costs for the Department's assets. Consistent with *SFFAS No. 6, "Accounting for Property, Plant, and Equipment,"* recognition of an anticipated environmental disposal liability begins when the asset is placed into service. Based on the Department's policy, which is consistent with *SFFAS No. 5*, nonenvironmental disposal liabilities are recognized when management decides to dispose of an asset. The Department recognizes nonenvironmental disposal liabilities for military equipment nuclear-powered assets when placed into service. These amounts are not easily distinguishable and are developed in conjunction with environmental disposal costs.

1.T. Accrued Leave

The Department reports liabilities for military leave and accrued compensatory and annual leave for civilians. Sick leave for civilians is expensed when taken. The liabilities are based on current pay rates.

1.U. Net Position

Net position consists of unexpended appropriations and cumulative results of operations.

Unexpended appropriations represent the amounts of budget authority that are unobligated and have not been rescinded or withdrawn. Unexpended appropriations also represent amounts obligated for which legal liabilities for payments have not been incurred.

Cumulative results of operations represent the net difference between expenses and losses, and financing sources (including appropriations, revenue, and gains), since inception. The cumulative results of operations also include donations and transfers in and out of assets that were not reimbursed.

1.V. Treaties for Use of Foreign Bases

The Department has the use of land, buildings, and other overseas facilities that are obtained through various international treaties and agreements negotiated by the Department of State. The Department purchases capital assets overseas with appropriated funds; however, the host country retains title to the land and capital improvements. Treaty terms generally allow the Department continued use of these properties until the treaties expire. In the event treaties or other agreements are terminated, use of the foreign bases is prohibited and losses are recorded for the value of any nonretrievable capital assets. The settlement due to the U.S. or host nation is negotiated and takes into account the value of capital investments and may be offset by the cost of environmental cleanup.

1.W. Undistributed Disbursements and Collections

Undistributed disbursements and collections represent the difference between disbursements and collections matched at the transaction level to specific obligations, payables, or receivables in the source systems and those reported by the U.S. Treasury.

Supported disbursements and collections may be evidenced by corroborating documentation that would generally support the summary level adjustments made to accounts payable and receivable. Unsupported disbursements and collections do not have supporting documentation for the transaction and most likely would not meet audit scrutiny. However, both supported and unsupported adjustments may have been made to the Department's Accounts Payable and Receivable trial balances prior to validating underlying transactions required to establish the Accounts Payable/Receivable were previously made. As a result, misstatements of reported Accounts Payable and Receivable are likely present in the Department's financial statements.

Due to noted material weaknesses in current accounting and financial feeder systems, the Department is generally unable to determine whether undistributed disbursements and collections should be applied to federal or non-Federal accounts payable/receivable at the time accounting reports are prepared. Accordingly, the Department's policy is to allocate supported undistributed disbursements and collections between federal and non-Federal categories based on the percentage of distributed federal and non-Federal accounts payable and accounts receivable. Both supported and unsupported undistributed disbursements and collections are then applied to reduce accounts payable and receivable accordingly.

1.X. Fiduciary Activities

Fiduciary cash and other assets are not assets of the Department and are not recognized on the Balance Sheet. Fiduciary activities are reported on the financial statement note schedules.

1.Y. Military Retirement and Other Federal Employment Benefits

The Department applies *SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates,"* in selecting the discount rate and valuation date used in estimating actuarial liabilities. In addition, gains and losses from changes in long-term assumptions used to estimate the actuarial liability are presented separately on the Statement of Net Cost. Refer to Note 17, Military Retirement and Other Federal Employment Benefits and Note 18, General Disclosures Related to the Statement of Net Cost, for additional information.

1.Z. Significant Events

During FY 2013, the Department implemented *SFFAS No. 43, "Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmark Funds."* *SFFAS No. 43* provides clarifying language to be used by reporting entities when classifying funds and provides additional reporting alternatives for financial statement presentation and note disclosure. Refer to Note 19, Disclosures on Statement of Changes in Net Position and Note 23, Funds from Dedicated Collections, for additional information.

NOTE 2. NONENTITY ASSETS

Nonentity Assets *As of September 30*	*Dollars in Millions* 2013	2012
Intragovernmental Assets		
Fund Balance with Treasury	$ 1,184.0	$ 788.8
Total Intragovernmental Assets	**$ 1,184.0**	**$ 788.8**
Non-Federal Assets		
Cash and Other Monetary Assets	$ 1,393.6	$ 1,709.1
Accounts Receivable	6,830.4	7,172.8
Other Assets	174.1	179.1
Total Non-Federal Assets	$ 8,398.1	$ 9,061.0
Total Nonentity Assets	$ 9,582.1	$ 9,849.8
Total Entity Assets	$ 2,170,282.7	$ 2,075,876.9
Total Assets	**$ 2,179,864.8**	**$ 2,085,726.7**

Nonentity assets are not available for use in the Department's normal operations. The Department has stewardship accountability and reporting responsibility for nonentity assets.

Other Disclosures

Intragovernmental FBWT consists primarily of deposit funds and receipt accounts. Deposit funds represent amounts held temporarily until paid to the appropriate party. Receipt accounts represent amounts collected on behalf of the U.S. Treasury General Fund.

Non-Federal Cash and Other Monetary Assets primarily consist of cash held by Disbursing Officers to carry out payment, collection, and foreign currency exchanges.

Non-Federal Accounts Receivable consist of amounts associated with canceled year appropriations, and interest, fines and penalties due on debt. Generally, the Department cannot use the collections and must remit them to the U.S. Treasury.

Non-Federal Other Assets consists of an Advanced Payment Pool Agreement (APPAs) for research and development projects. The Department utilizes APPAs when multiple contracts with a nonprofit educational institution require advance payments.

NOTE 3. FUND BALANCE WITH TREASURY

Fund Balance with Treasury *As of September 30*	*Dollars in Millions* 2013	Restated 2012
Fund Balance		
Appropriated Funds	$ 468,669.9	$ 500,572.1
Revolving Funds	10,477.7	8,051.7
Trust Funds	1,666.0	2,132.9
Special Funds	686.2	533.7
Other Fund Types	1,161.9	831.2
Total Fund Balance	**$ 482,661.7**	**$ 512,121.6**
Fund Balance Per Treasury Versus Agency		
Fund Balance per Treasury	$ 492,296.4	$ 521,342.1
Fund Balance per Agency	482,661.7	512,121.6
Reconciling Amount	**$ 9,634.7**	**$ 9,220.5**

Other Fund Types primarily consist of deposit fund and receipt accounts.

The Department shows a reconciling net difference of $9.6 billion with U.S. Treasury. This includes canceling year authority of $9.1 billion, unavailable receipts of $377.7 million, allocation transfers of $78.4 million and fiduciary activities of $45.1 million.

Status of Fund Balance with Treasury *As of September 30*	*Dollars in Millions* **2013**	**2012**
Unobligated Balances		
Available	$ 113,939.3	$ 119,674.0
Unavailable	643,857.4	582,311.3
Obligated Balance not yet Disbursed	437,665.8	469,112.0
Non-Budgetary FBWT	1,654.7	723.3
Non-FBWT Budgetary Accounts	(714,455.5)	(659,699.0)
Total Fund Balance	**$ 482,661.7**	**$ 512,121.6**

The Status of FBWT reflects the budgetary resources to support FBWT and is a reconciliation between budgetary and proprietary accounts. It primarily consists of unobligated and obligated balances. The balances reflect the budgetary authority remaining for disbursements against current or future obligations.

Unobligated Balance is classified as available or unavailable and represents the cumulative amount of budgetary authority set aside to cover future obligations. The unavailable balance consists primarily of funds invested in U.S. Treasury securities and are temporarily precluded from obligation by law. Certain unobligated balances are restricted for future use and are not apportioned for current use. Unobligated balances for trust fund accounts are restricted for use by the public laws that establish the funds.

Obligated Balance not yet Disbursed represents funds obligated for goods and services but not paid.

Non-Budgetary FBWT includes accounts without budgetary authority, such as deposit funds, unavailable receipt accounts, clearing accounts, and nonentity FBWT.

Non-FBWT Budgetary Accounts reduce the Status of FBWT and consist of investments in U.S. Treasury securities, unfilled customer orders without advance, contract and borrowing authority, and receivables.

NOTE 4. INVESTMENTS AND RELATED INTEREST

Investments and Related Interest — As of September 30 (Dollars in Millions)	2013				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based					
Military Retirement Fund	$ 494,977.7	See Below	$ (15,416.9)	$ 479,560.8	$ 522,376.6
Medicare-Eligible Retiree Health Care Fund	223,228.7	See Below	(8,291.7)	214,937.0	242,383.0
US Army Corps of Engineers	8,100.0	See Below	(127.3)	7,972.7	8,078.3
Other Funds	3,213.4	See Below	(114.9)	3,098.5	3,231.5
Total Nonmarketable, Market-Based	729,519.8		(23,950.8)	705,569.0	776,069.4
Accrued Interest	5,928.5			5,928.5	5,928.5
Total Intragovernmental Securities	$ 735,448.3		$ (23,950.8)	$ 711,497.5	$ 781,997.9
Other Investments					
Total Other Investments	$ 3,333.9	See Below	$ 0.0	$ 3,333.9	N/A
Amortization Method Used: Effective Interest					

Investments and Related Interest — As of September 30 (Dollars in Millions)	Restated 2012				
	Cost	Amortization Method	Amortized (Premium)/ Discount	Investments, Net	Market Value Disclosure
Intragovernmental Securities					
Nonmarketable, Market-Based					
Military Retirement Fund	$ 435,206.4	See Below	$ (11,012.4)	$ 424,194.0	$ 536,544.6
Medicare-Eligible Retiree Health Care Fund	207,793.6	See Below	(6,433.4)	201,360.2	262,831.3
US Army Corps of Engineers	7,264.6	See Below	(57.7)	7,206.9	7,416.2
Other Funds	3,278.3	See Below	(79.8)	3,198.5	3,461.3
Total Nonmarketable, Market-Based	653,542.9		(17,583.3)	635,959.6	810,253.4
Accrued Interest	5,706.9			5,706.9	5,706.9
Total Intragovernmental Securities	$ 659,249.8		$ (17,583.3)	$ 641,666.5	$ 815,960.3
Other Investments					
Total Other Investments	$ 3,255.0	See Below	$ 0.0	$ 3,255.0	N/A
Amortization Method Used: Effective Interest					

The Department invests primarily in non-marketable, market-based securities. The value of these securities fluctuates in tandem with the selling price of the equivalent marketable security. Securities are purchased with the intent to hold until maturity; thus, balances are not adjusted to market value.

The U.S. Treasury securities are issued to funds from dedicated collections as evidence of its receipts and are an asset to the Department and a liability to the U.S. Treasury. The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections. Cash generated from funds from dedicated collections is deposited in the U.S. Treasury and used for general government purposes.

Since the Department and the U.S. Treasury are both part of the Federal Government, these assets and liabilities offset each other from the standpoint of the Federal Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

The U.S. Treasury securities provide the Department with authority to access funds to make future benefit payments or other expenditures. When the Department requires redemption of securities to make expenditures, the Federal Government will meet the requirement by using accumulated cash balances, raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. The Federal Government uses the same method to finance all other expenditures.

Other Funds primarily consists of $1.9 billion in investments of the DoD Education Benefits Trust Fund, $884.1 million in investments of the Host Nation Support for U.S. Relocation Activities Trust Fund, and $272.6 million in investments of the Voluntary Separation Incentive Trust Fund.

Other Investments consists of Military Housing Privatization Initiative limited partnerships. The Department invests in nongovernmental entities involved in the acquisition or construction of family housing and supporting facilities at Army, Air Force, Navy, and Marine Corps installations. The Department provides cash, land, or facilities as equity, but has no management role. A limited partnership arrangement operates purely as a private business and does not require Market Value Disclosure.

NOTE 5. ACCOUNTS RECEIVABLE

Accounts Receivable			*Dollars in Millions*
	2013		
As of September 30	**Gross Amount Due**	**Allowance for Estimated Uncollectibles**	**Accounts Receivable, Net**
Intragovernmental Receivables	$ 1,284.2	N/A	$ 1,284.2
Non-Federal Receivables (From the Public)	11,262.8	(806.6)	10,456.2
Total Accounts Receivable	$ 12,547.0	$ (806.6)	$ 11,740.4

Accounts Receivable			*Dollars in Millions*
	2012		
As of September 30	**Gross Amount Due**	**Allowance for Estimated Uncollectibles**	**Accounts Receivable, Net**
Intragovernmental Receivables	$ 1,439.6	N/A	$ 1,439.6
Non-Federal Receivables (From the Public)	12,420.5	(898.1)	11,522.4
Total Accounts Receivable	$ 13,860.1	$ (898.1)	$ 12,962.0

Accounts receivable represent the Department's claim for payment from other entities. The Department only recognizes an allowance for uncollectible amounts from the public. Claims with other Federal agencies are resolved in accordance with the Intragovernmental Business Rules.

NOTE 6. OTHER ASSETS

Other Assets *As of September 30*	*Dollars in Millions* 2013	 2012
Intragovernmental Other Assets		
Advances and Prepayments	$ 1,620.2	$ 1,447.3
Other Assets	137.4	135.9
Total Intragovernmental Other Assets	**$ 1,757.6**	**$ 1,583.2**
Non-Federal Other Assets		
Outstanding Contract Financing Payments	$ 68,594.7	$ 65,342.9
Advances and Prepayments	3,681.4	1,063.6
Other Assets (With the Public)	$ 190.8	$ 194.7
Total Non-Federal Other Assets	**$ 72,466.9**	**$ 66,601.2**
Total Other Assets	**$ 74,224.5**	**$ 68,184.4**

Other Disclosures

Intragovernmental Other Assets are largely related to the Department's right to approximately 6.4 million barrels of crude oil held by the Department of Energy.

The Other Assets (With the Public) balance is primarily comprised of APPAs for research and development projects. AAPAs are utilized when multiple contracts with a nonprofit educational institution require advance payments.

Contract terms and conditions for certain types of contract financing payments convey rights to the Department, protecting the contract work from state or local taxation, liens or attachment by contractors' creditors, transfer of property, or disposition in bankruptcy. However, these rights should not be misconstrued to mean that ownership of contractors' work has transferred to the Department. The Department does not have the right to take the work, except as provided for in contract clauses related to termination or acceptance. The Department is not obligated to make payment to contractors until delivery and acceptance.

Outstanding Contract Financing Payments includes $64.9 billion in contract financing payments and an additional $3.7 billion in estimated future payments to contractors upon delivery and government acceptance of satisfactory product. Refer to Note 15, Other Liabilities, for further information.

NOTE 7. CASH AND OTHER MONETARY ASSETS

Cash and Other Monetary Assets *As of September 30*	*Dollars in Millions* 2013	 2012
Cash	$ 430.7	$ 443.9
Foreign Currency	1,099.0	1,378.1
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 1,529.7**	**$ 1,822.0**

Cash (except for $136.1 million in undeposited collections, imprest funds and other cash) and Foreign Currency represent nonentity assets and are restricted and unavailable to fund the Department's mission.

NOTE 8. DIRECT LOAN AND LOAN GUARANTEES

Direct Loan and Loan Guarantee Programs

The Department operates the following direct loan and/or loan guarantee programs:

- Military Housing Privatization Initiative (MHPI)
- Armament Retooling and Manufacturing Support Initiative (ARMS)

The *Federal Credit Reform Act of 1990* governs all new and amended direct loan obligations and loan guarantee commitments made after FY 1991.

Direct loans are reported at the net present value of the following projected cash flows:

- Loan disbursements
- Repayments of principal
- Payments of interest and other payments over the life of the loan after adjusting for estimated defaults, prepayments, fees, penalties, and other recoveries

Loan guarantee liabilities are reported at the net present value. The cost of the loan guarantee is the net present value of the following estimated projected cash flows:

- Payments by the Department to cover defaults and delinquencies, interest subsidies, or other payments; offset by payments to the Department including origination and other fees, penalties, and recoveries.

Military Housing Privatization Initiative

The MHPI includes both direct loan and loan guarantee programs. The programs are authorized by the *National Defense Authorization Act for FY 1996 (PL 104-106, Section 2801)* and include a series of authorities allowing the Department to work with the private sector to renovate and build military family housing. The MHPI accelerates the construction of new housing built to market standards and obtains private sector capital to leverage government funds. The Department provides protection to private sector partners against specific risks, such as base closure or member deployment.

Armament Retooling and Manufacturing Support Initiative

The ARMS Initiative, *Title 10 United States Code 4551-4555*, is a loan guarantee program designed to encourage commercial use of the Army's inactive ammunition plants through incentives for businesses willing to locate to a government ammunition production facility. The production capacity of these facilities is greater than current military requirements; however, this capacity may be needed by the military in the future. Revenue offsets overhead costs for operation, maintenance, and environmental cleanup at the facilities.

In an effort to preclude additional loan liability, the Army instituted an ARMS loan guarantee moratorium in FY 2004 and does not anticipate new loans.

Summary of Direct Loans and Loan Guarantees	Dollars in Millions 2013	2012
Loans Receivable		
Direct Loans:		
Military Housing Privatization Initiative	1,267.7	957.5
Total Direct Loans	**$ 1,267.7**	**$ 957.5**
Total Loans Receivable	**$ 1,267.7**	**$ 957.5**
Loan Guarantee Liability		
Military Housing Privatization Initiative	45.8	11.7
Armament Retooling & Manufacturing Support Initiative	0.0	1.0
Total Loan Guarantee Liability	**$ 45.8**	**$ 12.7**

Direct Loans Obligated	Dollars in Millions 2013	2012
Direct Loans Obligated After FY 1991 (Present Value Method):		
Military Housing Privatization Initiative		
Loans Receivable Gross	$ 1,355.8	$ 1,119.6
Allowance for Subsidy Cost (Present Value)	(88.1)	(162.1)
Value of Assets Related to Direct Loans, Net	1,267.7	957.5
Total Direct Loans Receivable	**$ 1,267.7**	**$ 957.5**

Direct Loans Receivable does not represent proceeds the Department would expect to receive from selling the loans.

Interest receivable is calculated using the interest earned method.

Total Amount of Direct Loans Disbursed	Dollars in Millions 2013	2012
Direct Loan Programs		
Military Housing Privatization Initiative	$ 241.3	$ 261.1
Total	**$ 241.3**	**$ 261.1**

Subsidy Expense for Direct Loan by Program					*Dollars in Millions*
2013	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
New Direct Loans Disbursed					
Military Housing Privatization Initiative	$ 5.9	$ 34.9	$ 0.0	$ 0.0	$ 40.8
Total	**$ 5.9**	**$ 34.9**	**$ 0.0**	**$ 0.0**	**$ 40.8**
2012	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
New Direct Loans Disbursed					
Military Housing Privatization Initiative	$ 21.3	$ 22.2	$ 0.0	$ 0.0	$ 43.5
Total	**$ 21.3**	**$ 22.2**	**$ 0.0**	**$ 0.0**	**$ 43.5**
2013	**Modifica-tions**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
Direct Loan Modifications and Reestimates					
Military Housing Privatization Initiative	$ 0.0	$ (10.7)	$ (84.0)	$ (94.7)	$ (94.7)
Total	**$ 0.0**	**$ (10.7)**	**$ (84.0)**	**$ (94.7)**	**$ (94.7)**
2012	**Modifica-tions**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
Direct Loan Modifications and Reestimates					
Military Housing Privatization Initiative	$ 0.0	$ (9.6)	$ (4.1)	$ (13.7)	$ (13.7)
Total	**$ 0.0**	**$ (9.6)**	**$ (4.1)**	**$ (13.7)**	**$ (13.7)**
	2013	**2012**			
Total Direct Loan Subsidy Expense:					
Military Housing Privatization Initiative	$ (53.9)	$ 29.8			
Total	**$ (53.9)**	**$ 29.8**			

Subsidy Expense for Direct Loan by Program					
As of September 30, 2013	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
Budget Subsidy Rates for Direct Loans					
Military Housing Privatization Initiative	3.89%	12.37%	0.00%	0.00%	16.26%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. These rates cannot be applied to direct loans disbursed during the current reporting year to yield the subsidy expense. Subsidy expense for new loans disbursed in the current year results from disbursements of loans from current and prior year loan agreements. Subsidy expense reported in the current year also includes reestimates.

Schedule for Reconciling Subsidy Cost Allowance Balances for Post-FY 1991 Direct Loans	*Dollars in Millions*	
	2013	**2012**
Beginning Balance, Changes, and Ending Balance:		
Beginning Balance of the Subsidy Cost Allowance	**$ 162.1**	**$ 139.4**
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Interest Rate Differential Costs	5.9	21.3
Default Costs (Net of Recoveries)	34.9	22.2
Total of the above Subsidy Expense Components	**$ 40.8**	**$ 43.5**
Adjustments		
Subsidy Allowance Amortization	(10.4)	(7.1)
Other	(9.7)	0.0
Total of the above Adjustment Components	**$ (20.1)**	**$ (7.1)**
Ending Balance of the Subsidy Cost Allowance before Reestimates	**$ 182.8**	**$ 175.8**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimates	$ (10.7)	$ (9.6)
Technical/Default Reestimate	(84.0)	(4.1)
Total of the above Reestimate Components	**(94.7)**	**(13.7)**
Ending Balance of the Subsidy Cost Allowance	**$ 88.1**	**$ 162.1**

Defaulted Guaranteed Loans *As of September 30*	*Dollars in Millions*	
	2013	**2012**
Defaulted Guaranteed Loans from Post-FY 1991 Guarantees (Present Value Method):		
Armament Retooling & Manufacturing Support Initiative		
Defaulted Guaranteed Loans Receivable, Gross	$ 0.7	$ 0.7
Allowance for Subsidy Cost (Present Value)	(0.7)	(0.7)
Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net	**$ 0.0**	**$ 0.0**
Total Value of Assets Related to Defaulted	**$ 0.0**	**$ 0.0**

Guaranteed Loans Outstanding *As of September 30*	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
	Dollars in Millions	
2013		
Guaranteed Loans Outstanding		
Military Housing Privatization Initiative	$ 670.8	$ 670.8
Total	**$ 670.8**	**$ 670.8**
2012		
Guaranteed Loans Outstanding		
Military Housing Privatization Initiative	$ 448.4	$ 448.4
Total	**$ 448.4**	**$ 448.4**
2013		
New Guaranteed Loans Disbursed		
Military Housing Privatization Initiative	$ 222.5	$ 222.5
Total	**$ 222.5**	**$ 222.5**
2012		
New Guaranteed Loans Disbursed		
Military Housing Privatization Initiative	$ 0.0	$ 0.0
Total	**$ 0.0**	**$ 0.0**

Liabilities for Loan Guarantees *As of September 30*	**2013**	**2012**
	Dollars in Millions	
Liabilities for Loan Guarantee from Post 1991 (Present Value)		
Military Housing Privatization Initiative	$ 45.8	$ 11.7
Armament Retooling & Manufacturing Support Initiative	0	1.0
Total Loan Guarantee Liability (Post FY 1991)	**$ 45.8**	**$ 12.7**
Total Loan Guarantee Liability	**$ 45.8**	**$ 12.7**

Subsidy Expense for Direct Loan by Program *As of September 30*					*Dollars in Millions*
2013	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
New Loan Guarantees Disbursed					
Military Housing Privatization Initiative	$ 0.0	$ 33.7	$ 0.0	$ 0.0	$ 33.7
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	**$ 0.0**	**$ 33.7**	**$ 0.0**	**$ 0.0**	**$ 33.7**
2012	**Interest Differential**	**Defaults**	**Fees**	**Other**	**Total**
New Loan Guarantees Disbursed					
Military Housing Privatization Initiative	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	0.0	0.0	0.0
Total	**$ 0.0**	**$ 0.0**	**$ 0.0**	**$ 0.0**	**$ 0.0**
2013	**Modifica-tions**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
Modifications and Reestimates					
Military Housing Privatization Initiative	$ 0.0	$ (0.9)	$ (0.3)	$ (1.2)	$ (1.2)
Armament Retooling & Manufacturing Support Initiative	0.0	0.0	(1.1)	(1.1)	(1.1)
Total	**$ 0.0**	**$ (0.9)**	**$ (1.4)**	**$ (2.3)**	**$ (2.3)**
2012	**Modifica-tions**	**Interest Rate Reestimates**	**Technical Reestimates**	**Total Reestimates**	**Total**
Modifications and Reestimates					
Military Housing Privatization Initiative	$ 0.0	$ (0.9)	$ (1.7)	$ (2.6)	$ (2.6)
Armament Retooling & Manufacturing Support Initiative	0.0	0.8	(0.0)	0.8	0.8
Total	**$ 0.0**	**$ (0.1)**	**$ (1.7)**	**$ (1.8)**	**$ (1.8)**
	2013	**2012**			
Total Loan Guarantee					
Military Housing Privatization Initiative	$ 32.5	$ (2.6)			
Armament Retooling & Manufacturing Support Initiative	(1.1)	0.8			
Total	**$ 31.4**	**$ (1.8)**			

The Department incurred two new loan guarantees after determining the projects were more advantageous to administer these projects as loan guarantees rather than direct loans.

Subsidy Expense for Direct Loan by Program *As of September 30, 2013*	Interest Supplements	Defaults	Fees and other Collections	Other	Total
Budget Subsidy Rates for Loan Guarantees					
Military Housing Privatization Initiative	0.0%	6.56%	0.0%	0.0%	6.56%
Armament Retooling & Manufacturing Support Initiative	0.0%	0.0%	0.0%	0.0%	0.0%

Subsidy rates pertain to loan agreements contracted during the current fiscal year. These rates cannot be applied to loan guarantees agreed to during the current reporting year to yield the subsidy expense. Subsidy expense reported in the current year also includes reestimates.

Schedule for Reconciling Loan Guarantee Liability Balances for Post-FY 1991 Loan Guarantees *As of September 30*	*Dollars in Millions* **2013**	**2012**
Beginning Balance, Changes, and Ending Balance		
Beginning Balance of the Loan Guarantee Liability	**$ 12.7**	**$ 13.9**
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
Default Costs (Net of Recoveries)	33.7	0.0
Total of the above Subsidy Expense Components	**$ 33.7**	**$ 0.0**
Adjustments		
Interest Accumulation on the Liability Balance	1.7	0.6
Total of the above Adjustments	**$ 1.7**	**$ 0.6**
Ending Balance of the Loan Guarantee Liability before Reestimates	**$ 48.1**	**$ 14.5**
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	$ (0.9)	$ (0.1)
Technical/Default Reestimate	(1.4)	(1.7)
Total of the above Reestimate Components	**$ (2.3)**	**(1.8)**
Ending Balance of the Loan Guarantee Liability	**$ 45.8**	**$ 12.7**

Administrative Expenses are limited to separately identified expenses for administering pre-FY 1992 and post-FY 1991 Direct Loans and Loan Guarantee Programs. The Department does not maintain a separate program to capture expenses related to direct loans and loan guarantees for MHPI. Administrative expenses for the ARMS Initiative represent a fee paid to the U.S. Department of Agriculture, Rural Business Cooperative Service.

Note 9. Inventory and Related Property

Inventory and Related Property *As of September 30*	2013	2012
	Dollars in Millions	
Inventory, Net	$ 85,368.0	$ 90,156.8
Operating Materiel & Supplies, Net	168,110.0	152,591.5
Stockpile Materiel, Net	519.5	551.4
Total Inventory and Related Property	**$ 253,997.5**	**$ 243,299.7**

Inventory, Net *As of September 30*	2013			Valuation Method
Dollars in Millions	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
Inventory Categories				
Available and Purchased for Resale	$ 57,101.0	$ (3,402.3)	$ 53,698.7	FIFO,LAC, MAC
Held for Repair	34,312.3	(4,105.8)	30,206.5	LAC,MAC
Excess, Obsolete, and Unserviceable	6,967.1	(6,967.1)	0.0	NRV
Raw Materiel	1,412.4	0.0	1,412.4	MAC,SP,LAC
Work in Process	50.4	0.0	50.4	AC
Total Inventory, Net	**$ 99,843.2**	**$ (14,475.2)**	**$ 85,368.0**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
MAC = Moving Average Cost
FIFO = First In, First Out

Inventory, Net *As of September 30*	2012			Valuation Method
Dollars in Millions	Inventory, Gross Value	Revaluation Allowance	Inventory, Net	
Inventory Categories				
Available and Purchased for Resale	$ 61,608.0	$ (2,602.5)	$ 59,005.5	FIFO,LAC, MAC
Held for Repair	33,864.2	(4,143.9)	29,720.3	LAC,MAC
Excess, Obsolete, and Unserviceable	6,833.8	(6,833.8)	0.0	NRV
Raw Materiel	1,352.6	0.0	1,352.6	MAC,SP,LAC
Work in Process	78.4	0.0	78.4	AC
Total Inventory, Net	**$ 103,737.0**	**$ (13,580.2)**	**$ 90,156.8**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
AC = Actual Cost
NRV = Net Realizable Value
MAC = Moving Average Cost
FIFO = First In, First Out

Restrictions

The following are restrictions on the use, sale, or disposition of inventory:

- War reserve materiel valued at $1.5 billion;
- Commissary items valued at $375.9 million held for purchase by authorized patrons; and
- Dispositions pending litigation or negotiation valued at $68.9 million.

There are no known restrictions on inventory disposition related to environmental or other liabilities.

General Composition of Inventory

Inventory includes spare and repair parts, clothing and textiles, and fuels held for sale. Inventory is tangible personal property:

- Held for sale, or held for repair and eventual sale;
- In the process of production for sale; or
- To be consumed in the production of goods for sale or in the provision of service for a fee.

The Department assigns inventory items to a category based on asset type and condition.

Operating Materiel and Supplies, Net				*Dollars in Millions*
	2013			Valuation Method
As of September 30	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	
Inventory Categories				
Held for Use	$ 142,845.3	$ (8.7)	$ 142,836.6	SP, LAC, MAC
Held for Repair	25,285.3	(11.9)	25,273.4	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	2,134.8	(2,134.8)	0.0	NRV
Total OM&S	**$ 170,265.4**	**$ (2,155.4)**	**$ 168,110.0**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
NRV = Net Realizable Value
MAC = Moving Average Cost

Operating Materiel and Supplies, Net				*Dollars in Millions*
	2012			Valuation Method
As of September 30	OM&S, Gross Value	Revaluation Allowance	OM&S, Net	
Inventory Categories				
Held for Use	$ 134,535.9	$ (28.0)	$ 134,507.9	SP, LAC, MAC
Held for Repair	18,882.2	(798.6)	18,083.6	SP, LAC, MAC
Excess, Obsolete, and Unserviceable	1,925.0	(1,925.0)	0.0	NRV
Total OM&S	**$ 155,343.1**	**$ (2,751.6)**	**$ 152,591.5**	

Legend for Valuation Methods:

Adjusted LAC = Latest Acquisition Cost, adjusted for holding gains and losses
SP = Standard Price
NRV = Net Realizable Value
MAC = Moving Average Cost

Restrictions

Some munitions included in OM&S are restricted due to condition. Restricted munitions are considered obsolete or unserviceable when they cannot meet performance requirements. However, obsolete and unserviceable OM&S may be used in emergency combat situations when no other suitable munitions are immediately available.

General Composition of OM&S

OM&S include spare and repair parts, ammunition, tactical missiles, aircraft configuration pods, and centrally managed aircraft engines held for consumption. The Department assigns OM&S items to a category based on asset type and condition.

Stockpile Materiel, Net				*Dollars in Millions*
	2013			**Valuation Method**
As of September 30	**Stockpile, Materiel Amount**	**Allowance for Gains (Losses)**	**Stockpile, Materiel, Net**	
Stockpile Materiel Categories				
Held for Sale	$ 424.5	$ 0.0	$ 424.5	AC, LCM
Held for Reserve for Future Sale	95.0	0.0	95.0	AC, LCM
Total Stockpile Materiel	**$ 519.5**	**$ 0.0**	**$ 519.5**	
Legend for Valuation Methods:				
AC = Actual Cost			LCM = Lower of Cost or Market	

Stockpile Materiel, Net				*Dollars in Millions*
	2012			**Valuation Method**
As of September 30	**Stockpile, Materiel Amount**	**Allowance for Gains (Losses)**	**Stockpile, Materiel, Net**	
Stockpile Materiel Categories				
Held for Sale	$ 522.1	$ 0.0	$ 522.1	AC, LCM
Held for Reserve for Future Sale	29.3	0.0	29.3	AC, LCM
Total Stockpile Materiel	**$ 551.4**	**$ 0.0**	**$ 551.4**	
Legend for Valuation Methods:				
AC = Actual Cost			LCM = Lower of Cost or Market	

Restrictions

Materiel held by the National Defense Stockpile (NDS) is restricted unless released by congressional action and made available for sale on the open market. Stockpile materiel may not be disposed except for: (1) necessary upgrading, refining, or processing; (2) necessary rotation to prevent deterioration; (3) determination as excess with potential financial loss if retained; or (4) authorization by law.

Before selling any materiel, Congress must enact specific enabling legislation (e.g., the National Defense Authorization Act). When authorized to offer materiel for sale, NDS reclassifies from Materiel Held in Reserve to Materiel Held for Sale. The estimated market price of stockpile materiel held for sale as of 4th Quarter, FY 2013, is $1.3 billion.

General Composition of Stockpile Materiel

Due to statutory requirements, the Department holds strategic and critical stockpile materiel for use in national defense, conservation, or national emergencies.

NOTE 10. GENERAL PP&E, NET

General PP&E, Net					*Dollars in Millions*
	2013				
As of September 30	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 10,781.2	N/A	$ 10,781.2
Buildings, Structures, and Facilities	S/L	20 or 40	269,766.1	(127,980.0)	141,786.1
Leasehold Improvements	S/L	Lease term	403.8	(167.9)	235.9
Software	S/L	2 – 5 or 10	11,024.7	(8,038.9)	2,985.8
General Equipment	S/L	5 or 10	100,529.7	(63,823.5)	36,706.2
Military Equipment	S/L	Various	883,098.7	(483,845.8)	399,252.9
Assets Under Capital Lease[1]	S/L	Lease term	632.8	(438.5)	194.3
Construction-in-Progress	N/A	N/A	46,635.7	N/A	46,635.7
Other			1,035.8	(2.0)	1,033.8
Total General PP&E			**$ 1,323,908.5**	**$ (684,296.6)**	**$ 639,611.9**

[1] *Note 15 for additional information on Capital Leases*
Legend for Valuation Methods: S/L = Straight Line   N/A = Not Applicable

General PP&E, Net					*Dollars in Millions*
	2012				
As of September 30	Depreciation/ Amortization Method	Service Life	Acquisition Value	(Accumulated Depreciation/ Amortization)	Net Book Value
Major Asset Classes					
Land	N/A	N/A	$ 10,706.2	N/A	$ 10,706.2
Buildings, Structures, and Facilities	S/L	20 or 40	248,871.1	(120,845.8)	128,025.3
Leasehold Improvements	S/L	Lease term	880.5	(302.2)	578.3
Software	S/L	2 – 5 or 10	11,324.7	(7,640.2)	3,684.5
General Equipment	S/L	5 or 10	105,745.4	(69,931.6)	35,813.8
Military Equipment	S/L	Various	878,687.7	(500,413.0)	378,274.7
Assets Under Capital Lease[1]	S/L	Lease term	901.4	(520.4)	381.0
Construction-in-Progress	N/A	N/A	42,825.7	N/A	42,825.7
Other			1,171.4	(2.9)	1,168.5
Total General PP&E			**$ 1,301,114.1**	**$ (699,656.1)**	**$ 601,458.0**

[1] *Note 15 for additional information on Capital Leases*
Legend for Valuation Methods: S/L = Straight Line   N/A = Not Applicable

Other Disclosures

The Department has use of overseas land, buildings, and other facilities obtained through international treaties and agreements negotiated by the Department of State. Treaty covenants restrict the Department's use and disposal of real property (land and buildings) located outside the United States.

The Department does not have the acquisition value for all General PP&E and uses several cost methodologies to provide General PP&E values for financial statement reporting purposes. Extensive efforts are in progress to achieve audit readiness. The ongoing discovery and validation phases identify adjustments to values resulting in current year gains/losses.

Other General Property, Plant, and Equipment includes assets awaiting disposition.

Heritage Assets and Stewardship Land

The Department's policy is to preserve its heritage assets including items of historical, cultural, educational, or artistic importance.

The mission of the Department is to provide the military forces necessary to deter war and protect the security of the United States. The Department, with minor exceptions, uses most of the buildings and stewardship land in its daily activities and includes the buildings on the Balance Sheet as multi-use heritage assets (capitalized and depreciated).

Differences in the heritage assets and stewardship land quantities from the FY 2012 ending to the FY 2013 beginning unit counts resulted from efforts to improve quality of reported data.

Heritage assets within the Department consist of buildings and structures, archeological sites, and museum collections. The Department defines these as follows:

- Buildings and Structures. Buildings and structures listed, or eligible for listing, on the National Register of Historic Places, including Multi-Use Heritage Assets.
- Archeological Sites. Sites identified, evaluated, and determined to be eligible for or are listed on the National Register of Historic Places in accordance with Section 110 of the National Historic Preservation Act.
- Museum Collection Items. Items unique for one or more of the following reasons: historical or natural significance; cultural, educational, or artistic importance; or significant technical or architectural characteristics.

The Department is unable to identify all quantities of heritage assets and stewardship land added through donation or devise in FY 2013 due to limitations of the Department's financial and nonfinancial management processes and systems.

Categories	Measure Quantity	As of 9/30/12	Additions	Deletions	As of 9/30/13
Buildings and Structures	Each	56,175	61	240	55,996
Archeological Sites	Each	29,913	162	8	30,067
Museum Collection Items (Objects, not including fine art)	Each	1,233,347	11,815	316	1,244,846
Museum Collection Items (Objects, fine art)	Each	53,430	3,397	0	56,827

Stewardship land includes both land and land rights owned by the Department, but not acquired for, or in connection with, items of General Property, Plant, and Equipment. All land provided to the Department from the public domain or at no cost, regardless of its use, is classified as Stewardship Land.

Stewardship land is categorized and reported in acres based on the predominant use of the land. The three categories of Stewardship land held in public trust are: State Owned Land, Withdrawn Public Land, and Public Land.

The Department's stewardship land consists mainly of mission essential land.

Facility Code	Predominant Land Use Categories	As of 9/30/12 *(Acres in Thousands)*	Additions	Deletions	As of 9/30/13
9110	Government Owned Land	6,552	0	0	6,552
9111	State Owned Land	5	0	0	5
9120	Withdrawn Public Land	14,714	692	10	15,396
9130	Licensed and Permitted Land	917	27	0	944
9140	Public Land	11	0	0	11
9210	Land Easement	378	0	0	378
9220	In-leased Land	124	0	0	124
9230	Foreign Land	297	0	0	297
	Grand Total				**23,707**
	Total – All Other Lands				**8,295**
	Total – Stewardship Lands				**15,412**

Differences in the heritage assets and stewardship land quantities from the FY 2012 ending to the FY 2013 beginning unit counts resulted from efforts to improve quality of reported data.

Assets Under Capital Lease *As of September 30*	*Dollars in Millions* 2013	2012
Entity as Lessee, Assets Under Capital Lease		
Land and Buildings	$ 260.0	$ 273.0
Equipment	372.9	628.4
Accumulated Amortization	(438.5)	(520.4)
Total Capital Leases	**$ 194.4**	**$ 381.0**

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities Not Covered by Budgetary Resources *As of September 30*	*Dollars in Millions* 2013	 2012
Intragovernmental Liabilities		
Accounts Payable	$ 2.2	$ 12.9
Debt	1.7	4.3
Other	1,936.8	2,141.0
Total Intragovernmental Liabilities	**$ 1,940.7**	**$ 2,158.2**
Non-Federal Liabilities		
Accounts Payable	$ 206.2	$ 53.0
Military Retirement and Other Federal Employment Benefits	1,670,714.4	1,771,202.7
Environmental and Disposal Liabilities	54,593.4	57,911.8
Other Liabilities	15,726.6	16,323.7
Total Non-Federal Liabilities	**$ 1,741,240.6**	**$ 1,845,491.2**
Total Liabilities Not Covered by Budgetary Resources	**$ 1,743,181.3**	**$ 1,847,649.4**
Total Liabilities Covered by Budgetary Resources	**$ 668,945.9**	**$ 610,347.4**
Total Liabilities	**$ 2,412,127.2**	**$ 2,457,996.8**

Liabilities Not Covered by Budgetary Resources includes liabilities requiring congressional action before budgetary resources can be provided.

Intragovernmental Accounts Payable represents subsidy payments for the Military Housing Privatization Initiative and liabilities in canceled appropriations that, if paid, will be disbursed using current year funds.

Non-Federal Accounts Payable primarily represents liabilities in canceled appropriations that, if paid, will be disbursed using current year funds.

Debt consists primarily of borrowing from the U.S. Treasury for capital improvements to the Washington Aqueduct Project. The related reimbursement to the Department by Arlington County and Falls Church, Virginia, will be completed by 2023 and is recorded as non-Federal accounts receivable.

Environmental Liabilities represents the Department's liability for existing and anticipated environmental clean-up and disposal. Refer to Note 14, Environmental Liabilities, for additional details.

Intragovernmental Other Liabilities primarily consists of unfunded liabilities for Federal Employees Compensation Act, Unemployment Insurance, and Judgment Fund.

Non-Federal Other Liabilities primarily consists of unfunded annual leave, contingent liabilities, and expected expenditures for disposal of conventional munitions.

Military Retirement and Other Federal Employment Benefits consists of various employee actuarial liabilities not due and payable during the current fiscal year. These liabilities primarily consist of $1.1 trillion in pension liabilities and $558.5 billion in health benefit liabilities. Refer to Note 17, Military Retirement and Other Federal Employment Benefits, for additional details.

NOTE 12. ACCOUNTS PAYABLE

Accounts Payable			Dollars in Millions
	2013		
As of September 30	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 1,574.7	N/A	$ 1,574.7
Non-Federal Payables (To the Public)	20,138.9	10.2	20,149.1
Total Accounts Payable	**$ 21,713.6**	**$ 10.2**	**$ 21,723.8**

Accounts Payable			Dollars in Millions
	2012		
As of September 30	Accounts Payable	Interest, Penalties, and Administrative Fees	Total
Intragovernmental Payables	$ 1,762.9	N/A	$ 1,762.9
Non-Federal Payables (To the Public)	19,498.2	(6.2)	19,492.0
Total Accounts Payable	**$ 21,261.1**	**$ (6.2)**	**$ 21,254.9**

Accounts Payable include amounts owed to Federal and non-Federal entities for goods and services received by the Department. The Department's systems do not track intragovernmental accounts payable transactions by customer. Buyer-side accounts payable are adjusted to agree with interagency seller-side accounts receivable by: (1) reclassifying amounts between Federal and non-Federal accounts payable; (2) accruing additional accounts payable and expenses; and (3) applying both supported and unsupported undistributed disbursements at the reporting entity level.

NOTE 13. DEBT

Debt			Dollars in Millions
	2013		
As of September 30	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 952.6	$ 222.1	$ 1,174.7
Total Agency Debt	**$ 952.6**	**$ 222.1**	**$ 1,174.7**

Debt			Dollars in Millions
	2012		
As of September 30	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt (Intragovernmental)			
Debt to the Treasury	$ 783.4	$ 169.2	$ 952.6
Total Agency Debt	**$ 783.4**	**$ 169.2**	**$ 952.6**

The Department's debt consists of interest and principal payments due to the U.S. Treasury. The Department borrows funds for the Military Housing Privatization Initiative and the Washington Aqueduct Capital Improvements Project.

The Department must pay the debt on direct loans if borrowers (e.g., local governments or housing builders) default. For loan guarantees, the Department must pay the amount of outstanding principal guaranteed.

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Environmental and Disposal Liabilities *As of September 30*	*Dollars in Millions* 2013	2012
Environmental Liabilities–Non-Federal		
Accrued Environmental Restoration Liabilities		
Active Installations – Installation Restoration Program (IRP) and Building Demolition and Debris Removal (BD/DR)	$ 10,026.3	$ 10,571.0
Active Installations – Military Munitions Response Program (MMRP)	3,416.9	3,953.9
Formerly Used Defense Sites – IRP & BD/DR	3,018.8	3,063.4
Formerly Used Defense Sites – MMRP	10,096.8	10,842.6
Other Accrued Environmental Liabilities – Non-BRAC		
Environmental Corrective Action	$ 1,005.9	$ 786.4
Environmental Closure Requirements	1,824.6	1,838.8
Environmental Response at Operational – Ranges	128.7	93.7
Asbestos	1,030.7	1,057.4
Non-Military Equipment	575.7	554.1
Other	1,107.9	1,121.7
Base Realignment and Closure Installations (BRAC)		
Installation Restoration Program	$ 3,394.9	$ 3,388.2
Military Munitions Response Program	690.3	703.1
Environmental Corrective Action/Closure Requirements	197.6	159.5
Asbestos	0.3	0.3
Environmental Disposal for Military Equipment/Weapons Programs		
Nuclear Powered Military Equipment/Spent Nuclear Fuel	$ 14,076.4	$ 14,055.9
Non-Nuclear Powered Military Equipment	36.4	36.4
Other Weapons Systems	147.5	146.0
Chemical Weapons Disposal Program		
Chemical Demilitarization – Chemical Materials Agency (CMA)	$ 1,503.8	$ 3,691.1
CAMD Demilitarization – Assembled Chemical Weapons Alternatives (ACWA)	6,054.4	6,539.1
Total Environmental Liabilities	**$ 58,333.9**	**$ 62,602.6**

Other Accrued Environmental Liabilities, Non-Base Realignment and Closure (BRAC), Other consists primarily of Formerly Utilized Sites Remedial Action Program (FUSRAP) remediation. The FUSRAP remediates radiological contamination from the Department of Energy's U.S. Atomic Energy and Weapons Program.

The unrecognized portion of the estimated total cleanup costs associated with General Property, Plant, and Equipment (PP&E) is $3.2 billion for FY 2013. The amount reported does not accurately reflect the Department's total unrecognized costs associated with General PP&E. The Department is implementing procedures to address deficiencies.

OTHER DISCLOSURES

Types of Environmental Liabilities and Disposal Liabilities Identified

The Department has cleanup requirements for the Defense Environmental Restoration Program (DERP) for active installations, BRAC installations, and Formerly Used Defense Sites. The Department has additional cleanup requirements for active installations not covered by DERP, weapon systems programs, and chemical weapons disposal programs. The weapons systems program consists of chemical weapons disposal, nuclear powered aircraft carriers, nuclear powered submarines, and other nuclear ships. All cleanup efforts are performed in coordination with regulatory agencies, other responsible parties, and current property owners.

Applicable Laws and Regulations for Cleanup Requirements

The Department is required to clean up contamination from past waste disposal practices, leaks, spills, and other activity resulting in public health or environmental risk. The Department accomplishes this effort in coordination with regulatory agencies and, if applicable, other responsible parties and current property owners. The Department is also required to recognize closure and post-closure costs for its General PP&E and environmental corrective action costs for current operations. Each of the Department's major reporting entities is responsible for tracking and reporting all required environmental information related to environmental restoration costs, other accrued environmental costs, disposal costs of weapon systems, and environmental costs related to BRAC actions.

The Department follows the *Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA, Public Law 96-510)*, *Superfund Amendments and Reauthorization Act of 1986 (SARA, Public Law 99-499)*, *Resource Conservation and Recovery Act (RCRA, Public Law 94-580)* or other applicable federal or state laws to clean up contamination. The CERCLA and RCRA require the Department to clean up contamination in coordination with regulatory agencies, current owners of property damaged by the Department, and third parties with partial responsibility for environmental restoration. Failure to comply with agreements and legal mandates puts the Department at risk of incurring fines and penalties.

Laws concerning cleanup requirements for nuclear-powered naval vessels govern the Department’s environmental policy and regulations. *The Atomic Energy Act of 1954*, as amended, assures the proper management of source, special nuclear, and byproduct materiel. The Department coordinates nuclear power actions with the Department of Energy. The *Nuclear Waste Policy Act of 1982 (Public Law 97-425)* requires owners and generators of high-level nuclear waste and spent nuclear fuel to pay their share of the cost of the program. The *Low-Level Radioactive Waste Policy Amendments Act of 1985 (Public Law 99-240)* provides for the safe and efficient management of low-level radioactive waste.

The Chemical Weapons Disposal Program is based on *FY 1986 National Defense Authorization Act (Public Law 99-145, as amended)* directing the Department to destroy the unitary chemical stockpile in accordance with the requirements of the Chemical Weapons Convention Treaty.

Methods for Assigning Total Cleanup Costs to Current Operating Periods

The Department uses engineering estimates and independently validated models to project environmental costs. The models include the Remedial Action Cost Engineering Requirements application and the Normalization of Data System. The Department validates the models in accordance with *DoD Instruction 5000.61* "DoD Modeling and Simulation Verification, Validation, and Accreditation" and estimates liabilities based on data received during preliminary assessment and site investigation. The Department primarily uses engineering estimates after obtaining extensive data during the remedial investigation/feasibility phase of the environmental project.

Once the environmental cost estimates are complete, the Department complies with accounting standards to charge costs to current operating periods. The Department previously expensed cleanup costs for General PP&E placed into service prior to October 1, 1997, unless costs are to be recovered through user charges. As costs are recovered, the Department expenses cleanup costs associated with the asset life that has passed since the General PP&E was placed into service. The Department systematically recognizes the remaining cost over the life of the assets.

For General PP&E placed into service after September 30, 1997, the Department expenses associated environmental costs using two methods: physical capacity for operating landfills and life expectancy in years for all other assets. The Department expenses the full cost to clean up contamination for Stewardship PP&E when the asset is placed into service.

In accordance with reporting requirements for asbestos, the Department reports liabilities for buildings and facilities containing both friable and non-friable asbestos. At this time the Department is unable to reasonably estimate an amount of the total cleanup costs.

Nature of Estimates and the Disclosure of Information Regarding Possible Changes Due to Inflation, Deflation, Technology, or Applicable Laws and Regulations

The Department revised estimates resulting from overlooked or previously unknown contaminants, re-estimation based on different assumptions, and other changes in project scope. Although the Department is unaware of pending changes, environmental liabilities are subject to changes in laws and regulations, agreements with regulatory agencies, and advances in technology.

Uncertainty Regarding the Accounting Estimates Used to Calculate the Reported Environmental Liabilities

Accounting estimates for environmental liabilities use reasonable judgments and assumptions based on available information. Actual results may materially vary if agreements with regulatory agencies require remediation to a different degree than anticipated when calculating the estimates. Liabilities can be further affected if investigation of the environmental sites reveals contamination levels differing from estimate parameters.

The Department is responsible for environmental restoration and corrective action for buried chemical munitions and agents; however, it is unable to provide a reasonable estimate because the extent of the buried chemical munitions and agents is unknown. The Department is also unable to provide a complete estimate for FUSRAP. The Department has ongoing studies and will update its estimate as additional liabilities are identified. In addition, not all components of the Department recognize environmental liabilities associated with General PP&E due to process and system limitations.

The Department has the potential to incur costs for restoration initiatives in conjunction with returning overseas Defense facilities to host nations. The Department is unable to provide a reasonable estimate because the extent of required restoration is unknown.

Note 15. Other Liabilities

Other Liabilities			*Dollars in Millions*
	2013		
As of September 30	Current Liability	Noncurrent Liability	Total
Intragovernmental			
Advances from Others	$ 733.0	$ 0.0	$ 733.0
Deposit Funds and Suspense Account Liabilities	1,242.6	0.0	1,242.6
Disbursing Officer Cash	1,577.7	0.0	1,577.7
Judgment Fund Liabilities	234.3	0.0	234.3
FECA Reimbursement to the Department of Labor	621.3	707.7	1,329.0
Custodial Liabilities	4,498.7	2,383.7	6,882.4
Employer Contribution and Payroll Taxes Payable	397.3	0.0	397.3
Other Liabilities	491.4	0.0	491.4
Total Intragovernmental Other	**$ 9,796.3**	**$ 3,091.4**	**$ 12,887.7**
Non-Federal			
Accrued Funded Payroll and Benefits	$ 9,857.5	$ 0.0	$ 9,857.5
Advances from Others	4,862.7	0.0	4,862.7
Deferred Credits	0.0	0.0	0.0
Deposit Funds and Suspense Accounts	377.7	0.0	377.7
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	161.5	63.1	224.6
Excess/Obsolete Structures	79.2	218.9	298.1
Conventional Munitions Disposal	0.0	2,136.6	2,136.6
Accrued Unfunded Annual Leave	10,504.7	0.0	10,504.7
Capital Lease Liability	171.7	14.3	186.0
Contract Holdbacks	1,569.9	0.2	1,570.1
Employer Contribution and Payroll Taxes Payable	398.9	0.0	398.9
Contingent Liabilities	523.7	6,296.1	6,819.8
Other Liabilities	156.8	0.0	156.8
Total Non-Federal Other Liabilities	**$ 28,664.3**	**$ 8,729.2**	**$ 37,393.5**
Total Other Liabilities	**$ 38,460.6**	**$ 11,820.6**	**$ 50,281.2**

Other Liabilities As of September 30	2012 Current Liability	2012 Noncurrent Liability	2012 Total *Dollars in Millions*
Intragovernmental			
Advances from Others	$ 1,185.8	$ 0.0	$ 1,185.8
Deposit Funds and Suspense Account Liabilities	153.3	0.0	153.3
Disbursing Officer Cash	1,889.4	0.0	1,889.4
Judgment Fund Liabilities	328.1	0.0	328.1
FECA Reimbursement to the Department of Labor	616.9	756.1	1,373.0
Custodial Liabilities	4,647.9	2,508.0	7,155.9
Employer Contribution and Payroll Taxes Payable	365.6	0.0	365.6
Other Liabilities	490.5	0.0	490.5
Total Intragovernmental Other	**$ 9,677.5**	**$ 3,264.1**	**$ 12,941.6**
Non-Federal			
Accrued Funded Payroll and Benefits	$ 9,387.2	$ 0.0	$ 9,387.2
Advances from Others	4,225.2	0.0	4,225.2
Deferred Credits	0.0	0.0	0.0
Deposit Funds and Suspense Accounts	473.1	0.0	473.1
Nonenvironmental Disposal Liabilities			
Military Equipment (Nonnuclear)	151.3	26.5	177.8
Excess/Obsolete Structures	66.1	525.6	591.7
Conventional Munitions Disposal	0.0	2,136.6	2,136.6
Accrued Unfunded Annual Leave	10,638.2	0.0	10,638.2
Capital Lease Liability	184.0	22.3	206.3
Contract Holdbacks	964.2	0.2	964.4
Employer Contribution and Payroll Taxes Payable	371.4	0.0	371.4
Contingent Liabilities	531.9	6,421.2	6,953.1
Other Liabilities	182.6	0.5	183.1
Total Non-Federal Other Liabilities	**$ 27,175.2**	**$ 9,132.9**	**$ 36,308.1**
Total Other Liabilities	**$ 36,852.7**	**$ 12,397.0**	**$ 49,249.7**

Capital Lease Liability As of September 30	2013 – Asset Category Land and Buildings	Equipment	Other	Total Dollars in Millions
Future Payments Due				
2014	$ 30.1	$ 0.0	$ 1.1	$ 31.2
2015	30.7	0.0	0.0	30.7
2016	21.4	0.0	0.0	21.4
2017	22.1	0.0	0.0	22.1
2018	22.5	0.0	0.0	22.5
After 5 Years	146.4	0.0	0.0	146.4
Total Future Lease Payments Due	**$ 273.2**	**$ 0.0**	**$ 1.1**	**$ 274.3**
Less: Imputed Interest Executory Costs	88.3	0.0	0.0	88.3
Net Capital Lease Liability	**$ 184.9**	**$ 0.0**	**$ 1.1**	**$ 186.0**
Capital Lease Liabilities Covered by Budgetary Resources				**186.0**
Capital Lease Liabilities Not Covered by Budgetary Resources				**0.0**

Capital Lease Liability As of September 30	2012 – Asset Category Land and Buildings	Equipment	Other	Total Dollars in Millions
Future Payments Due				
2013	$ 17.5	$ 0.1	$ 2.8	$ 20.4
2014	19.6	0.0	1.1	20.7
2015	19.1	0.0	0.0	19.1
2016	10.4	0.0	0.0	10.4
2017	11.7	0.0	0.0	11.7
After 5 Years	126.9	0.0	0.0	126.9
Total Future Lease Payments Due	**$ 205.2**	**$ 0.1**	**$ 3.9**	**$ 209.2**
Less: Imputed Interest Executory Costs	2.9	0.0	0.0	2.9
Net Capital Lease Liability	**$ 202.3**	**$ 0.1**	**$ 3.9**	**$ 206.3**
Capital Lease Liabilities Covered by Budgetary Resources				**206.3**
Capital Lease Liabilities Not Covered by Budgetary Resources				**0.0**

Intragovernmental Other Liabilities primarily consists of unemployment compensation liabilities.

Non-Federal Other Liabilities primarily consist of accruals for services, accrued liabilities for inventory owned and managed on behalf of foreign governments, and undistributed international tariff receipts.

Contingent Liabilities includes $3.7 billion related to contracts authorizing progress payments based on cost as defined in the *Federal Acquisition Regulation (FAR)*. In accordance with contract terms, specific rights to contractors' work vests with the Federal Government when a specific type of contract financing payment is made. This action protects taxpayer funds in the event of contract nonperformance. These rights should not be misconstrued as rights of ownership. The Department is under no obligation to pay contractors amounts in excess of progress payments until delivery and government acceptance. Due to the probability the contractors will complete their efforts and deliver

satisfactory products, and because the amount of contractor costs incurred but yet unpaid are estimable, the Department has recognized a contingent liability for the estimated unpaid costs that are considered conditional for payment pending delivery and government acceptance.

Total contingent liabilities for progress payments based on cost represent the difference between the estimated costs incurred to date by contractors and amounts authorized to be paid under progress payments based on cost provisions within the *FAR*. Estimated contractor-incurred costs are calculated by dividing the cumulative unliquidated progress payments based on cost by the contract-authorized progress payment rate. The balance of unliquidated progress payments based on cost is deducted from the estimated total contractor-incurred costs to determine the contingency amount.

NOTE 16. COMMITMENTS AND CONTINGENCIES

Legal Contingencies

The Department is a party in various administrative proceedings and legal actions related to claims for environmental damage, equal opportunity matters, and contractual bid protests. The Department has accrued contingent liabilities for legal actions where the Office of General Counsel (OGC) considers an adverse decision probable and the amount of loss is measurable. In the event of an adverse judgment against the Government, some of the liabilities may be payable from the U.S. Treasury Judgment Fund.

The Department reports 44 legal actions with individual claims greater than the Department's FY 2013 materiality threshold of $139.3 million. The total of the 44 actions is approximately $13 trillion. Of this amount, the OGC determined that claims totaling approximately $7.3 billion are classified "reasonably possible," $3 trillion are classified "remote," and $10 trillion are classified "unable to determine the probability of loss." The Department also had a number of potential claims that individually did not meet the Department's materiality threshold but did meet the individual Components' thresholds. These claims are disclosed in the Components' financial statements.

Other Commitments and Contingencies

The Department is a party in numerous individual contracts that contain clauses, such as price escalation, award fee payments, or dispute resolution, that may result in a future outflow of expenditures. Currently, the Department has limited automated system processes by which it captures or assesses these potential contingent liabilities. Therefore, the amounts reported may not fairly present the Department's contingent liabilities. Contingencies considered both measurable and probable have been recognized as liabilities. Refer to Note 15, Other Liabilities, for further information.

Note 17. Military Retirement and Other Federal Employment Benefits

Military Retirement and Other Federal Employment Benefits						*Dollars in Millions*
	2013					
As of September 30	Liabilities		(Less: Assets Available to Pay Benefits)		Unfunded Liabilities	
Pension and Health Actuarial Benefits						
Military Retirement Pensions	$	1,519,779.5	$	(416,190.0)	$	1,103,589.5
Military Retirement Health Benefits		243,049.7		0.0		243,049.7
Military Medicare-Eligible Retiree Benefits		502,399.5		(186,963.8)		315,435.7
Total Pension and Health Actuarial Benefits	**$**	**2,265,228.7**	**$**	**(603,153.8)**	**$**	**1,662,074.9**
Other Benefits						
FECA	$	6,749.8	$	0.0	$	6,749.8
Voluntary Separation Incentive Programs		587.9		(265.6)		322.3
DoD Education Benefits Fund		1,369.3		(1,369.3)		0.0
Other		6,632.1		(5,064.9)		1,567.2
Total Other Benefits	**$**	**15,339.1**	**$**	**(6,699.8)**	**$**	**8,639.3**
Total Military Retirement and Other Federal Employment Benefits	**$**	**2,280,567.8**	**$**	**(609,853.6)**	**$**	**1,670,714.2**

Actuarial Cost Method Used: Aggregate Entry-Age Method
Assumptions: Effective Interest
Market Value of Investments in Market-based and Marketable Securities: $773 billion

Military Retirement and Other Federal Employment Benefits						Dollars in Millions
	2012					
As of September 30	Liabilities		(Less: Assets Available to Pay Benefits)		Unfunded Liabilities	
Pension and Health Actuarial Benefits						
Military Retirement Pensions	$	1,477,918.0	$	(371,657.5)	$	1,106,260.5
Military Retirement Health Benefits		298,216.9		0.0		298,216.9
Military Medicare-Eligible Retiree Benefits		532,781.3		(174,703.7)		358,077.6
Total Pension and Health Actuarial Benefits	**$**	**2,308,916.2**	**$**	**(546,361.2)**	**$**	**1,762,555.0**
Other Actuarial Benefits						
FECA	$	6,540.8	$	0.0	$	6,540.8
Voluntary Separation Incentive Programs		678.2		(308.5)		369.7
DoD Education Benefits Fund		1,385.4		(1,385.4)		0.0
Other		6,403.7		(4,666.3)		1,737.4
Total Other Actuarial Benefits	**$**	**15,008.1**	**$**	**(6,360.2)**	**$**	**8,647.9**
Total Military Retirement and Other Federal Employment Benefits	**$**	**2,323,924.3**	**$**	**(552,721.4)**	**$**	**1,771,202.9**

Actuarial Cost Method Used: Aggregate Entry-Age Method
Assumptions: Effective Interest
Market Value of Investments in Market-based and Marketable Securities: $807.7 billion

Military Retirement and Other Federal Employment Benefits As of September 30	2013				Dollars in Millions
	Military Retirement Pensions	Military Pre-Medicare Eligible Retiree Health Benefits	Military Medicare-Eligible Retiree Health Benefits	Voluntary Separation Incentive Programs	DoD Education Benefits Fund
Beginning Actuarial Liability	**$ 1,477,918.0**	**$ 298,216.9**	**$ 532,781.3**	**$ 678.2**	**$ 1,385.4**
Normal Cost Liability	31,699.1	10,777.2	11,496.6	0.0	166.2
Interest Cost	67,465.6	13,949.8	24,817.7	21.3	53.4
Plan Amendments	0.0	(3,265.0)	(43,560.9)	0.0	0.0
Experience Losses (Gains)	(14,703.5)	5,837.3	(9,615.3)	(11.0)	(65.0)
Other factors	(0.2)	(0.2)	0.0	0.1	136.2
Subtotal: Expenses before Losses (Gains) from Actuarial Assumption Changes	**84,461.0**	**27,299.1**	**(16,861.9)**	**10.4**	**290.8**
Actuarial (Gain)/Loss due to :					
Changes in trend assumptions	0.0	(16,894.7)	(24,355.0)	0.0	0.0
Changes in assumptions other than trend	11,906.3	(53,967.9)	20,467.0	5.7	0.0
Subtotal: Losses (Gains) from Actuarial Assumption Changes	**11,906.3**	**(70,862.6)**	**(3,888.0)**	**5.7**	**0.0**
Total Expenses	**96,367.3**	**(43,563.5)**	**(20,749.9)**	**16.1**	**290.8**
Less Benefit Outlays	54,505.8	11,603.7	9,631.9	106.4	306.9
Total Changes in Actuarial Liability	**$ 41,861.5**	**$ (55,167.2)**	**$ (30,381.8)**	**$ (90.3)**	**$ (16.1)**
Ending Actuarial Liability	**$ 1,519,779.5**	**$ 243,049.7**	**$ 502,399.5**	**$ 587.9**	**$ 1,369.3**

The Department complies with *SFFAS No. 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates."* The standard requires the separate presentation of gains and losses from changes in long-term assumptions used to estimate liabilities associated with pensions, other retirement and postemployment benefits. The *SFFAS No. 33* also provides a standard for selecting the discount rate and valuation date used in estimating these liabilities.

Military Retirement Pensions

The Military Retirement Fund is a defined benefit plan authorized by *Public Law (PL) 98-94* to provide funds used to pay annuities and pensions to retired military personnel and their survivors. The Department of Defense (DoD) Board of Actuaries approves the long-term economic assumptions for inflation, salary, and interest. The actuaries calculate the actuarial liabilities annually using economic assumptions and actual experience (e.g., mortality and retirement rates). Due to reporting deadlines, the current year actuarial present value of projected plan benefits rolls forward from the prior year's valuation results. The actuaries used the following assumptions to calculate the FY 2013 roll-forward amount:

Military Retirement Pensions	Inflation	Salary	Interest
Fiscal Year 2013	1.7% (actual)	1.7% (actual)	4.6%
Fiscal Year 2014	2.0% (estimated)	1.0% (estimated)	4.3%
Long Term	2.4%	2.8%	4.3%
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method *Market Value of Investments in Market-Based and Marketable Securities: $526.2 billion* *Assumed Interest Rate: 4.3%*			

Historically, the initial unfunded liability of the program was amortized over a 50-year period. Effective FY 2008, the initial unfunded liability is amortized over a 42-year period to ensure annual payments cover interest on the unfunded actuarial liability, with the last payment expected October 1, 2025. All subsequent gains and losses experienced are amortized over a 30-year period.

Military Retirement Health Benefits (MRHB)

The MRHB are post-retirement benefits the Department provides to non-Medicare-eligible military retirees and other eligible beneficiaries through private sector health care providers and the Department's medical treatment facilities. The actuaries calculate actuarial liabilities annually using assumptions and actual experience. In FY 2013, the actuaries revised the cost basis for the estimate to include only operations and maintenance and military personnel costs in order to reflect the operational environment of the Military Health System as it relates to retirees. For the FY 2013 actuarial liability calculation, actuaries used the following assumptions:

MHRB Medical Trend	FY 2012 – FY 2013	Ultimate Rate FY 2037
Medicare Inpatient (Direct Care)	0.13%	5.15%
Medicare Outpatient (Direct Care)	2.13%	5.15%
Medicare Prescriptions (Direct Care)	0.00%	5.15%
Non-Medicare Inpatient (Direct Care)	4.00%	5.15%
Non-Medicare Outpatient (Direct Care)	5.50%	5.15%
Non-Medicare Prescriptions (Direct Care)	3.10%	5.15%
Non-Medicare Inpatient (Purchased Care)	2.70%	5.15%
Non-Medicare Outpatient (Purchased Care)	4.48%	5.15%
Non-Medicare Prescriptions (Purchased Care)	3.81%	5.15%
U.S. Family Health Plan (USFHP) (Purchased Care)	4.39%	5.15%
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method *Assumed Interest Rate: 4.4%*		

Medicare-Eligible Retiree Health Care Fund (MERHCF) Benefits

In accordance with PL 106-398, MERHCF accumulates funds to finance the health care program liabilities of Medicare-eligible retirees for all the Uniformed Services and specific Medicare-eligible beneficiaries. The DoD Board of Actuaries approves the long-term assumptions for medical trends and interest. The actuaries calculate the actuarial liabilities annually using actual experience (e.g., mortality and retirement rates, direct care costs, purchased care). Due to reporting deadlines, the current year actuarial present value of projected plan benefits rolls forward from the prior year's results. The actuaries used the following assumptions to calculate the FY 2013 roll-forward amount:

MERHCF Benefits – Medical Trend	FY 2012 – FY 2013	Ultimate Rate FY 2037
Medicare Inpatient (Direct Care)	0.13%	5.15%
Medicare Inpatient (Purchased Care)	2.13%	5.15%
Medicare Outpatient (Direct Care)	2.13%	5.15%
Medicare Outpatient (Purchased Care)	3.13%	5.15%
Medicare Prescriptions (Direct Care)	0.00%	5.15%
Medicare Prescriptions (Purchased Care)	4.54%	5.15%
Medicare USFHP (Purchased Care)	3.14%	5.15%
Actuarial Cost Method Used: Aggregate Entry-Age Normal Method *Market Value of Investments in Market-Based and Marketable Securities: $244.4 billion* *Assumed Interest Rate: 4.4%*		

The MERHCF liability includes Medicare liabilities for all Uniformed Services. The $502.4 billion liability includes $490.8 billion for the Department, $10.3 billion for the Coast Guard, $1.2 billion for the Public Health Service and $76.0 million for National Oceanic and Atmospheric Administration (NOAA). The FY 2013 contributions from each of the Uniformed Services were $8.3 billion from the Department, $201.6 million from the Coast Guard, $27.6 million from the Public Health Service, and $1.4 million from NOAA.

Federal Employees Compensation Act (FECA)

The Department of Labor (DOL) annually determines the liability for future workers' compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred-but-not-reported claims. The liability is determined using historical benefit payment patterns related to a specific incurred period to predict the final payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year U.S. Treasury notes and bonds. An interest rate for wage benefits of 2.7 percent was assumed for year one and 3.1 percent for year two and thereafter. An interest rate for medical benefits of 2.3 percent was assumed for year one and 2.9 percent for year two and thereafter.

The DOL calculates this liability using wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIM). The actual rates for these factors for charge back year (CBY) 2013 were also used to adjust the methodology's historical payments to current year constant dollars. The compensation COLAs and CPIMs used in the projections for various charge back years were as follows:

Federal Employees – Compensation Act (FECA)		
CBY	COLA	CPIM
2014	1.67%	3.46%
2015	1.80%	3.82%
2016	2.20%	3.83%
2017	2.20%	3.82%
2018+	2.20%	3.82%

The model's resulting projections were analyzed by DOL to ensure the estimates were reliable. The analysis was based on four tests: (1) a sensitivity analysis of the model of economic assumptions; (2) a comparison of the percentage change in the liability amount to the percentage change in the actual incremental payments; (3) a comparison of the incremental paid losses per case (a measure of case-severity) in CBY 2013 to the average pattern observed during the prior three charge back years; and (4) a comparison of the estimated liability per case in the 2013 projection to the average pattern for the projections for the most recent three years.

Voluntary Separation Incentive (VSI) Program

The VSI Program was established by *PL 102-190* to reduce the number of military personnel on active duty. The DoD Board of Actuaries approved the assumed annual interest rate of 3.2 percent used to calculate the actuarial liability. Since VSI is no longer offered, the actuarial liability calculated annually is expected to continue to decrease with benefit outlays and increase with interest cost.

Market Value of Investments in Market-based and Marketable Securities: $278.4 million

DoD Education Benefits Fund (EBF)

The EBF was established by *PL 98-525* to recruit and retain military members and aid in the readjustment of military members to civilian life. The actuaries calculate the actuarial liability annually based on the assumed interest rate of 3.5% that was approved by the DoD Board of Actuaries.

Market Value of Investments in Market-based and Marketable Securities: $2.1 billion

Other Federal Employment Benefits

Other Federal Employment Benefits primarily consists of accrued pensions and annuities, and an estimated liability for incurred-but-not-reported medical claims not processed prior to fiscal year-end.

Note 18. General Disclosures Related to the Statement of Net Cost

Costs and Exchange Revenue *As of September 30*	*Dollars in Millions* 2013	 2012
Military Retirement Benefits		
1. Gross Cost		
A. Intragovernmental Cost	$ 205.3	$ 6.1
B. Non-Federal Cost	$ 64,217.0	$ 85,564.3
C. Total Cost	$ 64,422.3	$ 85,570.4
2. Earned Revenue		
A. Intragovernmental Revenue	$ (22,387.6)	$ (19,073.3)
B. Non-Federal Revenue	$ 0.0	$ 0.0
C. Total Revenue	$ (22,387.6)	$ (19,073.3)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 8,018.2	$ 88,311.0
Total Net Cost	**$ 50,052.9**	**$ 154,808.1**
Civil Works		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,465.1	$ 1,435.6
B. Non-Federal Cost	$ 8,291.6	$ 9,531.6
C. Total Cost	$ 9,756.7	$ 10,967.2
2. Earned Revenue		
A. Intragovernmental Revenue	$ (1,135.5)	$ (1,393.5)
B. Non-Federal Revenue	$ (700.4)	$ (774.1)
C. Total Revenue	$ (1,835.9)	$ (2,167.6)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.0	$ 0.0
Total Net Cost	**$ 7,920.8**	**$ 8,799.6**
Military Personnel		
1. Gross Cost		
A. Intragovernmental Cost	$ 30,997.8	$ 38,673.2
B. Non-Federal Cost	$ 115,054.3	$ 111,657.3
C. Total Cost	$ 146,052.1	$ 150,330.5
2. Earned Revenue		
A. Intragovernmental Revenue	$ (1,155.6)	$ (1,119.5)
B. Non-Federal Revenue	$ (3.1)	$ (339.1)
C. Total Revenue	$ (1,158.7)	$ (1,458.6)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.0	$ 0.0
Total Net Cost	**$ 144,893.4**	**$ 148,871.9**
Operations, Readiness & Support		
1. Gross Cost		
A. Intragovernmental Cost	$ (49,654.7)	$ (56,303.5)
B. Non-Federal Cost	$ 342,398.9	$ 352,007.6
C. Total Cost	$ 292,744.2	$ 295,704.1
2. Earned Revenue		
A. Intragovernmental Revenue	$ 8,918.3	$ 13,726.5
B. Non-Federal Revenue	$ (40,099.7)	$ (48,357.2)

Costs and Exchange Revenue *As of September 30*	*Dollars in Millions* **2013**	**2012**
C. Total Revenue	$ (31,181.4)	$ (34,630.7)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ (70,856.8)	$ (17,883.7)
Total Net Cost	**$ 190,706.0**	**$ 243,189.7**
Procurement		
1. Gross Cost		
A. Intragovernmental Cost	$ 31,638.1	$ 30,773.4
B. Non-Federal Cost	$ 44,578.0	$ 99,805.4
C. Total Cost	$ 76,216.1	$ 130,578.8
2. Earned Revenue		
A. Intragovernmental Revenue	$ (2,104.6)	$ (3,192.3)
B. Non-Federal Revenue	$ (935.0)	$ (305.7)
C. Total Revenue	$ (3,039.6)	$ (3,498.0)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.0	$ 0.0
Total Net Cost	**$ 73,176.5**	**$ 127,080.8**
Research, Development, Test & Evaluation		
1. Gross Cost		
A. Intragovernmental Cost	$ 21,332.1	$ 22,256.0
B. Non-Federal Cost	$ 48,988.9	$ 54,516.6
C. Total Cost	$ 70,321.0	$ 76,772.6
2. Earned Revenue		
A. Intragovernmental Revenue	$ (5,126.6)	$ (7,676.9)
B. Non-Federal Revenue	$ (2,687.8)	$ (1,590.3)
C. Total Revenue	$ (7,814.4)	$ (9,267.2)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.0	$ 0.0
Total Net Cost	**$ 62,506.6**	**$ 67,505.4**
Family Housing & Military Construction		
1. Gross Cost		
A. Intragovernmental Cost	$ 1,494.7	$ 2,019.9
B. Non-Federal Cost	$ 34,849.0	$ 29,787.6
C. Total Cost	$ 36,343.7	$ 31,807.5
2. Earned Revenue		
A. Intragovernmental Revenue	$ (7,147.1)	$ (8,579.0)
B. Non-Federal Revenue	$ (445.0)	$ (4,630.4)
C. Total Revenue	$ (7,592.1)	$ (13,209.4)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$ 0.0	$ 0.0
Total Net Cost	**$ 28,751.6**	**$ 18,598.1**
Consolidated		
1. Gross Cost		
A. Intragovernmental Cost	$ 37,478.4	$ 38,860.7
B. Non-Federal Cost	$ 658,377.7	$ 742,870.4
C. Total Cost	$ 695,856.1	$ 781,731.1
2. Earned Revenue		
A. Intragovernmental Revenue	$ (30,138.7)	$ (27,308.0)

Costs and Exchange Revenue *As of September 30*	*Dollars in Millions* 2013		2012	
B. Non-Federal Revenue	$	(44,871.0)	$	(55,996.8)
C. Total Revenue	$	(75,009.7)	$	(83,304.8)
3. Losses/(Gains) from Actuarial Assumption Changes for Military Retirement Benefits	$	(62,838.6)	$	70,427.3
4. Costs Not Assigned to Programs	$	0.0	$	0.0
5. (Less: Earned Revenues) Not Attributed to Programs	$	0.0	$	0.0
Total Net Cost	**$**	**558,007.8**	**$**	**768,853.6**

Abnormal Balances

Operations, Readiness & Support Intragovernmental Gross Cost and Earned Revenue on the SNC have abnormal balances of $49.7 billion and $9.0 billion, respectively. The current business practice is to include all elimination reporting in this program group, which results in the abnormal balance presentation.

Other Disclosures

The SNC represents the net cost of programs and organizations of the Department supported by appropriations or other means. The intent of the SNC is to provide gross and net cost information related to the amount of output or outcome for a given program or organization administered by a responsible reporting entity. The Department's current processes and systems capture costs based on appropriation groups as presented in the schedule above. The lower level costs for major programs are not presented as required by the *Government Performance and Results Act*. The Department is in the process of reviewing available data and developing a cost reporting methodology required by *SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government,"* amended by *SFFAS No. 30, "Inter-Entity Cost Implementation."*

Intragovernmental costs and revenue represent transactions between two reporting entities within the Federal Government. Public costs and revenues are exchange transactions between the reporting entity and a non-Federal entity.

The Department's systems do not track intragovernmental transactions by customer. Buyer side expenses are adjusted to agree with internal seller side revenues. Expenses are generally adjusted by reclassifying amounts between Federal and non-Federal expenses. Intradepartmental revenues and expenses are then eliminated.

The SNC presents information based on budgetary obligation, disbursement, and collection transactions, as well as data from nonfinancial feeder systems. General Fund data is primarily derived from budgetary transactions (obligations, disbursements, and collections), data from nonfinancial feeder systems, and accruals (payroll expenses, accounts payable, and environmental liabilities). Working Capital Funds primarily record transactions on an accrual basis; however, the systems do not always capture actual costs timely.

The Department's accounting systems generally do not capture information relative to heritage assets separately and distinctly from normal operations.

The Department's military retirement and postemployment costs are reported in accordance with *SFFAS 33, "Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates."* The standard requires the separate presentation of gains and losses from changes in long term assumptions used to estimate liabilities associated with pensions, other retirement benefits, and other postemployment benefits on the SNC. *SFFAS No. 33* also provides a standard for selecting the discount rate and valuation date used to estimate these liabilities.

NOTE 19. DISCLOSURES RELATED TO THE STATEMENT OF CHANGES IN NET POSITION

Other Financing Sources, Other consists primarily of nonexchange gains and losses necessary to reconcile the proprietary and budgetary amounts, as well as gains and losses on disposition of assets. Due to financial system limitations, the Department adjusts for these unreconciled differences.

Effective with FY 2013 reporting, the Department has elected an alternative presentation for the Statement of Changes in Net Position (SCNP) as provided for in *SFFAS 43: "Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds."* Prior to the implementation of SFFAS 43, the SCNP contained separate columns for reporting of funds from dedicated collections. Beginning in FY 2013, the SCNP includes a reference to the "Funds from Dedicated Collections" footnote and no longer includes a separate column on the face of the statement.

Appropriations Received on the Statement of Budgetary Resources (SBR) exceed Appropriations Received on the SCNP by $23.4 billion. This difference represents $123.9 billion in trust and special fund receipts reported as exchange revenue on the Statement of Net Cost and $0.2 billion in receipts and appropriations made available for obligation included in appropriations on the SBR, offset by $57.0 billion in receipts and appropriations temporarily precluded from obligation, $42.7 billion in permanent reductions, and $1.0 billion in receipts unavailable for obligation upon collection and current year authority transfers.

NOTE 20. DISCLOSURES RELATED TO THE STATEMENT OF BUDGETARY RESOURCES

Disclosures Related to the Statement of Budgetary Resources		*Dollars in Millions*
As of September 30	**2013**	**2012**
Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period.	$ 458,821.6	$ 486,886.1

Reconciliation Differences

Appropriations Received on the SBR exceed Appropriations Received on the Statement of Changes in Net Position by $23.4 billion. This difference represents $123.9 billion in trust and special fund receipts reported as exchange revenue on the Statement of Net Cost and $0.2 billion in receipts and appropriations made available for obligation included in appropriations on the SBR, offset by $57.0 billion in receipts and appropriations temporarily

precluded from obligation, $42.7 billion in permanent reductions, and $1.0 billion in receipts unavailable for obligation upon collection and current year authority transfers.

In accordance with OMB guidance, $109.7 billion of General Fund appropriations received by the Department are also recognized on the SBR as appropriations received for trust and special funds. The primary difference is due to this OMB guidance requiring duplicate reporting on the SBR for the Military Services' contributions and U.S. Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The SBR FY 2012 column includes $109.9 billion more in budget authority than reported in the 2012 actual column of the President's FY 2014 Budget. The difference is primarily due to duplicate reporting in the SBR of the Military Services' contributions and U.S. Treasury's payments to the Military Retirement Trust Fund and Medicare-Eligible Retiree Health Care Fund.

The SBR FY 2012 column includes $449.6 million more in obligations than reported in the 2012 actual column of the President's FY 2014 Budget. The difference is primarily due to the timing of the recognition of obligations.

The SBR FY 2012 column includes $25.6 billion less in net outlays than reported in the 2012 actual column of the President's FY 2014 Budget. The SBR reduces net outlays by the distributed offsetting receipts. The President's Budget does not reduce the Department's outlays by the distributed offsetting receipts.

Permanent Indefinite Appropriations

The Department of Defense received the following permanent indefinite appropriations:

Department of the Army General Gift Fund (10 USC 2601(C)(1))

Department of the Navy General Gift Fund (10 USC 2601(C)(2))

Department of the Air Force General Gift Fund (10 USC 2601(C)(3))

Department of Defense General Gift Fund (10 USC 2601)

Disposal of Department of Defense Real Property (40 USC 485(h)(2)(A)(B))

Lease of Department of Defense Real Property (40 USC 485(h)(2)(A)(B))

Foreign National Employees Separation Pay Account, Defense (10 USC 1581)

United States Naval Academy Gift and Museum Fund (10 USC 6973-4)

Ship Stores Profits, Navy (10 USC 7220, 31 USC 1321)

Burdensharing Contributions (10 USC 2350j)

Forest Program (10 USC 2665)

Medicare Eligible Retiree Health Care Fund (10 USC 1111)

Military Retirement Fund (10 USC 1461)

Education Benefits Fund (10 USC 2006)

Host Nation Support for U.S. Relocation Activities (10 USC 2350k)

Hydraulic Mining Debris Reservoir (33 USC 683)

Maintenance and Operation of Dams and Other Improvements of Navigable Waters (16 USC 810(a))

Payments to States (33 USC 701c-3)

Wildlife Conservation (16 USC 670-670(f))

Ainsworth Bequest (31 USC 1321)

DoD Family Housing Improvement Fund (10 USC 2883 (a))

DoD Military Unaccompanied Housing Improvement Fund (10 USC 2883 (a))

Voluntary Separation Incentive Fund (10 USC 1175(h))

Rivers & Harbors Contributed Funds (33 USC 560, 701h)

Concurrent Receipt Accrual Payments to the Military Retirement Fund 10 USC 1466(b)(1)

Rocky Mountain Arsenal, Restoration (100 Statute, 4003 SEC 1367)

DoD Family Housing Improvement Fund, Direct Loan, Financing Account (2 USC 661d)

DoD Family Housing Improvement Fund, Guaranteed Loan, Financing Account (2 USC 661d)

Homeowners Assistance Fund (10 USC 4551-4555; 42 USC 3374(d), Title United States Code; Public Law 111-5)

Payments to Military Retirement Fund, Defense (10 USC, 1466)

Payment to Department of Defense Medicare-Eligible Retiree Health Care Fund (10 USC 1116(a))

Arms Initiative, Guaranteed Loan Financing Account, Army (10 USC 2501, 10 USC 4551-4555)

Medicare-Eligible Retiree Health Fund Contribution, Navy (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Marine Corps (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Navy (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Marine Corps (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Army (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Army (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Army (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, Reserve Personnel, Air Force (10 USC 1116)

Medicare-Eligible Retiree Health Fund Contribution, National Guard Personnel, Air Force (10 USC 1116)

Department of Defense Vietnam War Commemoration Fund, Defense (P.L. 110-181, 122 Stat. 141 (Sec. 598))

The above permanent indefinite appropriations cover a wide variety of purposes to help the Department accomplish its missions. These purposes primarily include: (1) military retirees' health care benefits, retirement and survivor pay, and education benefits for veterans; (2) wildlife habitat restoration and water resources maintenance; (3) relocation of armed forces within a host nation; (4) separation payments for foreign nationals; and (5) upkeep of libraries and museums.

Apportionment Categories for Obligations Incurred

Apportionment categories are determined in accordance with the guidance provided in *OMB Circular No. A-11, "Preparation, Submission and Execution of the Budget."* Category A relates to appropriations for a specific period of time (e.g., Military Personnel appropriation), and category B relates to appropriations for a specific project (e.g., Military Construction appropriation). The Department Reported the following amounts of obligations incurred:

Year Ended September 30, 2013				*Dollars in Billions*
	Apportionment Category A	Apportionment Category B	Exempt From Apportionment	Total
Obligations Incurred – Direct	464.6	183.8	136.7	785.1
Obligations Incurred – Reimbursable	33.7	135.2	0.1	169.0
Totals Obligations Incurred:	**$ 498.3**	**$ 319.0**	**$ 136.8**	**$ 954.1**

Legal Arrangements Affecting the Use of Unobligated Balances

A portion of the Department's unobligated balances represent trust fund receipts collected in the current fiscal year exceeding the amount needed to pay benefits or other valid obligations. These receipts are temporarily precluded from obligation by law due to a benefit formula or other limitation. The receipts, however, are assets of the funds and are available for obligation in the future. The Department operates within the constraints of fiscal law and has no additional legal arrangements affecting the use of unobligated balances.

Other Disclosures

The SBR includes intra-entity transactions because the statements are presented as combined.

The Department utilizes borrowing authority for the Military Housing Privatization Initiative and the Armament Retooling and Manufacturing Support Initiative. Borrowing authority is used in accordance with *OMB Circular A-129, "Managing Federal Credit Programs."*

The Department received additional funding of $87.3 billion to cover obligations incurred above baseline operations in support of contingency operations.

NOTE 21. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget *As of September 30*	*Dollars in Millions* **2013**	**2012**
Resources Used to Finance Activities		
Budgetary Resources Obligated:		
Obligations incurred	$ 954,067.2	$ 1,059,305.0
Less: Spending authority from offsetting collections and recoveries (-)	(230,340.8)	(258,964.9)
Obligations net of offsetting collections and recoveries	**$ 723,726.4**	**$ 800,340.1**
Less: Offsetting receipts (-)	(82,767.6)	(79,238.4)
Net obligations	**$ 640,958.8**	**$ 721,101.7**
Other Resources:		
Donations and forfeitures of property	$ 9.9	$ 37.5
Transfers in/out without reimbursement (+/-)	(14.6)	66.1
Imputed financing from costs absorbed by others	4,896.8	5,048.1
Other (+/-)	32,173.5	(10,465.7)
Net other resources used to finance activities	**$ 37,065.6**	**$ (5,314.0)**
Total resources used to finance activities	**$ 678,024.4**	**$ 715,787.7**
Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided:		
Undelivered Orders (-)	$ 28,064.4	$ (16,379.3)
Unfilled Customer Orders	(1,767.8)	3,715.0
Resources that fund expenses recognized in prior Periods (-)	(92,516.0)	(19,822.5)
Budgetary offsetting collections and receipts that do not affect Net Cost of Operations	2,122.8	966.1
Resources that finance the acquisition of assets (-)	(105,940.4)	(105,865.0)
Other resources or adjustments to net obligated resources that do not affect Net Cost of Operations:		
Less: Trust or Special Fund Receipts Related to exchange in the Entity's Budget (-)	0.0	0.0
Other (+/-)	(32,309.2)	10,323.4
Total resources used to finance items not part of the Net Cost of Operations	**$ (202,346.2)**	**$ (127,062.3)**
Total resources used to finance the Net Cost of Operations	**$ 475,678.2**	**$ 588,725.4**
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period		
Components Requiring or Generating Resources in Future Period:		
Increase in annual leave liability	$ 189.5	$ 253.6
Increase in environmental and disposal liability	624.1	657.2
Upward/Downward reestimates of credit subsidy expense (+/-)	(24.8)	(12.0)
Increase in exchange revenue receivable from the public (-)	194.0	84.6
Other (+/-)	42,826.9	124,388.8
Total components of Net Cost of Operations that will Require or Generate Resources in future periods	**$ 43,809.7**	**$ 125,372.2**
Components not Requiring or Generating Resources:		
Depreciation and amortization	$ 44,524.6	$ 47,978.8
Revaluation of assets or liabilities (+/-)	3,528.3	2,693.3
Other (+/-)		
Trust Fund Exchange Revenue	(51,893.3)	(50,977.7)

Reconciliation of Net Cost of Operations to Budget *As of September 30*	*Dollars in Millions* 2013	 2012
Cost of Goods Sold	66,612.8	78,140.6
Operating Materiel and Supplies Used	12,936.2	27,873.0
Other	(37,188.7)	(50,952.0)
Total Components of Net Cost of Operations that will not Require or Generate Resources	**$ 38,519.9**	**$ 54,756.0**
Total components of Net Cost of Operations that will not Require or Generate Resources in the current period	**$ 82,329.6**	**$ 180,128.2**
Net Cost of Operations	**$ 558,007.8**	**$ 768,853.6**

Other Disclosures

Due to the Department's financial systems limitations, budgetary data does not agree with proprietary expenses and capitalized assets. This difference is a previously identified deficiency. The following adjustments (absolute value) were made to balance the Reconciliation of Net Cost of Operations to Budget:

	Dollars in Millions
Resources that Finance the Acquisition of Assets	$ 6,308.4
Other Components not Requiring or Generating Resources	$ 79,345.8
Total Amount	**$ 85,654.2**

The following Reconciliation of Net Cost of Operations to Budget lines are presented as combined instead of consolidated due to intra-agency budgetary transactions not being eliminated:

- Obligations Incurred
- Less: Spending Authority from Offsetting Collections and Recoveries
- Obligations Net of Offsetting Collections and Recoveries
- Less: Offsetting Receipts
- Net Obligations
- Undelivered Orders
- Unfilled Customer Orders

Other Resources, Other primarily consists of non-exchange gains and losses necessary to reconcile the proprietary and budgetary amounts, as well as gains and losses from disposition of assets.

Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations, Other primarily consists of non-exchange gains and losses necessary to reconcile the proprietary and budgetary amounts.

Components Requiring or Generating Resources in Future Period, Other consists primarily of future funded expenses.

Components not Requiring or Generating Resources, Other primarily consists of cost capitalization offsets and other expenses not requiring budgetary resources.

Note 22. Disclosures Related to Incidental Custodial Collections

The Department collected $9.8 million of incidental custodial revenues generated primarily from forfeitures of unclaimed money and property. These funds are not available for use by the Department. At the end of each fiscal year, the accounts are closed and the balances are relinquished to the U.S. Treasury.

Note 23. Funds from Dedicated Collections

Funds from Dedicated Collections					*Dollars in Millions*
	2013				
As of September 30	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
Balance Sheet					
Assets					
Fund Balance with Treasury	$ 107.5	$ 1,093.5	$ 949.0	$ 0.0	$ 2,150.0
Investments	7,877.5	0.0	911.9	0.0	8,789.4
Accounts and Interest Receivable	448.8	3.9	5.0	(2.9)	454.8
Other Assets	659.6	30.0	804.9	0.0	1,494.5
Total Assets	**$ 9,093.4**	**$ 1,127.4**	**$ 2,670.8**	**$ (2.9)**	**$ 12,888.7**
Liabilities and Net Position					
Accounts Payable and Other Liabilities	13.0	1,125.4	74.2	(10.6)	1,202.0
Total Liabilities	**$ 13.0**	**$ 1,125.4**	**$ 74.2**	**$ (10.6)**	**$ 1,202.0**
Unexpended Appropriations	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Cumulative Results of Operations	$ 9,080.4	$ 2.0	$ 2,596.6	$ 1,028.8	$ 12,707.8
Total Liabilities and Net Position	**$ 9,093.4**	**$ 1,127.4**	**$ 2,670.8**	**$ 1,018.2**	**$ 13,909.8**

Statement of Net Cost					
Program Costs	$ 145.3	$ 340.9	$ 1,296.1	$ (123.1)	$ 1,659.2
Less Earned Revenue	0.0	(366.9)	(305.0)	0.1	(671.8)
Net Program Costs	145.3	(26.0)	991.1	(123.0)	987.4
Net Cost of Operations	**$ 145.3**	**$ (26.0)**	**$ 991.1**	**$ (123.0)**	**$ 987.4**

Statement of Changes in Net Position					
Net Position Beginning of the Period	$ 8377.2	$ 4.8	$ 2,410.4	$ 0.0	$ 10,792.4
Net Cost of Operations	145.3	(26.0)	991.1	(123.0)	987.4
Budgetary Financing Sources	848.6	0.0	1129.2	938.8	2,916.6
Other Financing Sources	(0.1)	(28.8)	48.1	(33.0)	(13.8)
Change in Net Position	**$ 703.2**	**$ (2.8)**	**$ 186.2**	**$ 1,028.8**	**$ 1,915.4**
Net Position End of Period	**$ 9,080.4**	**$ 2.0**	**$ 2,596.6**	**$ 1,028.8**	**$ 12,707.8**

Funds from Dedicated Collections *Dollars in Millions*	Restated 2012				
As of September 30	Harbor Maintenance Trust Fund	Rivers and Harbors Contributed and Advance Fund	Other Funds	Eliminations	Consolidated Total
Balance Sheet					
Assets					
Fund Balance with Treasury	$ 102.7	$ 979.2	$ 862.5	$ 0.0	$ 1,944.4
Investments	7,112.1	0.0	838.1	0.0	7,950.2
Accounts and Interest Receivable	475.4	2.7	6.2	(7.3)	477.0
Other Assets	700.7	31.0	744.3	0.0	1,476.0
Total Assets	**$ 8,390.9**	**$ 1,012.9**	**$ 2,451.1**	**$ (7.3)**	**$ 11,847.6**
Liabilities and Net Position					
Accounts Payable and Other Liabilities	13.7	1,008.0	40.8	(16.4)	1,046.1
Total Liabilities	**$ 13.7**	**$ 1,008.0**	**$ 40.8**	**$ (16.4)**	**$ 1,046.1**
Unexpended Appropriations	$ 0.0	$ 0.0	$ 0.0	$ 0.0	$ 0.0
Cumulative Results of Operations	8,377.2	4.9	2,410.3	1,175.2	11,967.6
Total Liabilities and Net Position	**$ 8,390.9**	**$ 1,012.9**	**$ 2,451.1**	**$ 1,158.8**	**$ 13,013.7**

Statement of Net Cost					
Program Costs	$ 36.2	$ 464.4	$ 1326.5	$ (110.8)	$ 1,716.3
Less Earned Revenue	0.0	(499.2)	(317.1)	0.2	(816.1)
Net Program Costs	36.2	(34.8)	1,009.4	(110.6)	900.2
Net Cost of Operations	**$ 36.2**	**$ (34.8)**	**$ 1,009.4**	**$ (110.6)**	**$ 900.2**

Statement of Changes in Net Position					
Net Position Beginning of the Period	$ 7,598.8	$ 12.2	$ 2,570.8	$ 0.0	$ 10,181.8
Net Cost of Operations	36.2	(34.8)	1,009.4	(110.6)	900.2
Budgetary Financing Sources	832.8	0.0	859.8	991.9	2,684.5
Other Financing Sources	(18.2)	(42.1)	(10.9)	72.7	1.5
Change in Net Position	**$ 778.4**	**$ (7.3)**	**$ (160.5)**	**$ 1,175.2**	**$ 1,785.8**
Net Position End of Period	**$ 8,377.2**	**$ 4.9**	**$ 2,410.3**	**$ 1,175.2**	**$ 11,967.6**

Restatements

In accordance with clarifying language provided by the *SFFAS 43: "Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds,"* FY 2012 balances were realigned. After evaluating funds against the *SFFAS 43* criteria, the following funds are not considered Funds from Dedicated Collections:

- Military Retirement Fund
- Medicare-Eligible Retiree Health Care Fund
- Armament Retooling and Manufacturing Support Initiative
- Military Housing Privatization Initiative

- Education Benefit Fund
- Voluntary Separation Incentive Fund

Other Disclosures

The *SFFAS 43* requires disclosure of Funds from Dedicated Collections separate from All Other Funds on the Balance Sheet. Funds must meet three criteria to be classified as funds from dedicated collections: (1) a statute committing the use of specifically-identified revenues provided by non-Federal sources for designated purposes; (2) explicit authority to retain the revenues; and (3) a requirement to separately account and report on the revenues. The Department's funds from dedicated collections are either special or trust funds and use both receipt and expenditure accounts to report activity to the U.S. Treasury. There has been no legislation significantly altering the purposes of the funds.

The Total column is shown as consolidated and relates only to Funds from Dedicated Collections. The Eliminations column includes eliminations associated with Funds from Dedicated Collections and excludes the offsetting eliminations from All Other Funds. This exclusion causes assets to not equal liabilities and net position in the note. However, the amounts in the Total column equal the amounts reported as Funds from Dedicated Collections on the Balance Sheet.

The Department has the following Funds from Dedicated Collections:

Harbor Maintenance Trust Fund, 26 USC 9505. The United States Army Corps of Engineers (USACE) Civil Works mission is funded by the Energy and Water Development Appropriations Act. The Water Resources Development Act of 1986 covers a portion of USACE operations and maintenance costs for deep draft navigation. The Harbor Maintenance Trust Fund is available for making expenditures to carry out the functions specified in the Act and for the payment of all administrative expenses incurred by the U.S. Treasury, USACE, and the Department of Commerce. Taxes collected from imports, domestics, passengers, and foreign trade are deposited into the Trust Fund. The Bureau of Fiscal Services (BFS) manages and invests for the Trust Fund.

Rivers and Harbors Contributed and Advance Funds, 33 USC 701h, 702f, and 703. Whenever any state or political subdivision offers to advance funds for a flood control project authorized by law, the Secretary of the Army may accept such funds and expend them in the immediate prosecution of such work. The funding is used to construct, improve, and maintain levees, water outlets, flood control, debris removal, rectification and enlargement of river channels, etc. in the course of flood control and river and harbor maintenance.

Other Funds from Dedicated Collections

Special Recreation Use Fees, 16 USC 4061-6a note. The USACE charges and collects Special Recreation Use Fees at campgrounds located at lakes or reservoirs under their jurisdiction. Allowable fees include daily use fees, admission fees, recreational fees, annual pass fees, and other permit type fees. Receipts cover operation and maintenance of recreational sites.

Hydraulic Mining in California, Debris, 33 USC 683. Operators of hydraulic mines allowing debris to flow to a body restrained by a dam or other work erected by the California Debris

Commission are required to pay an annual tax as determined by the Commission. The USACE collects taxes and expends funds under the direction of the Department of the Army. Funds repay advances by the Federal government or other agencies for construction, restraining works, settling reservoirs, and maintenance.

Payments to States, Flood Control Act of 1954, 33 USC 701c-3. The USACE collects receipts for the leasing of lands acquired by the U.S. for flood control, navigation, and allied purposes (including the development of hydroelectric power). Funds received are appropriated the following fiscal year with seventy-five percent of funds provided to the state where the property is located. States may expend the funds for the benefit of public schools and public roads of the counties where the property is located, or for defraying county government expenses.

Maintenance and Operation of Dams and Other Improvements of Navigable Waters, 16 USC 803(f) and 810. The Federal Energy Regulatory Commission (FERC) assesses charges against licensees when a reservoir or other improvement is constructed by the U.S. All proceeds from Indian reservations are credited to the Indians of the reservations. All other proceeds arising from licenses, except those established by the FERC for administrative reimbursement, are paid to the U.S. Treasury and allocated for specific uses. The Department of the Army is allocated fifty percent of charges from all licenses, except licenses for the occupancy and use of public lands and national forests. These funds are deposited in a special fund and used for maintenance, operation, and improvement of dams and other navigation structures owned by the U.S., or in construction, maintenance, or operation of headwater, or other improvements to navigable waters of the U.S.

Fund for Non-Federal Use of Disposal Facilities (for dredged material), 33 USC 2326. Non-Federal interests may use dredged material disposal facilities under the jurisdiction of, or managed by, the Secretary of the Army if the Secretary determines use will not reduce the availability of the facility for project purposes. Fees may be imposed to recover capital, operation, and maintenance costs of the disposal facility from which the fees were collected.

Coastal Wetlands Restoration Trust Fund and Coastal Wetlands Planning, Protection, and Restoration Act, 16 USC 3951-3956. The USACE, Environmental Protection Agency, and Fish and Wildlife Service are authorized to work with the State of Louisiana to develop, review, evaluate, and approve a plan to achieve a goal of "no net loss of wetlands" in coastal Louisiana. The USACE is also responsible for allocating funds. Federal contributions are 75 percent of project costs or 85 percent if the state has an approved Coastal Wetlands Conservation Plan. This Trust Fund receives funding from the Sport Fish Restoration and Boating Trust Fund.

Inland Waterways Trust Fund, 26 USC 9506. Excise taxes from the public are used by USACE for navigation, construction, and rehabilitation projects on inland waterways. The BFS manages and invests for the Trust Fund.

Defense Commissary Agency Surcharge Trust Fund, 10 USC 2685. Surcharge on sales of commissary goods finance operating expenses and capital purchases of the Commissary System, precluded by law from being paid with appropriated funds. Revenue is generated through a five percent surcharge applied to each sale. These funds finance commissary-related information technology investments, equipment, advance design

modifications to prior year construction projects, and maintenance and repair of facilities and equipment.

NOTE 24. FIDUCIARY ACTIVITIES

Schedule of Fiduciary Activity *As of September 30*	*Dollars in Millions* 2013	2012
Fiduciary net assets, beginning of year	$ 158.7	$ 199.5
Contributions	194.1	222.5
Investment earnings	12.4	15.2
Distributions to and on behalf of beneficiaries	(223.3)	(278.5)
Increase/(Decrease) in fiduciary net assets	(16.8)	(40.8)
Fiduciary net assets, end of period	**$ 141.9**	**$ 158.7**

Schedule of Fiduciary Net Assets *As of September 30*	*Dollars in Millions* 2013	2012
Fiduciary Assets		
Cash and cash equivalents	$ 141.9	$ 158.7
Total Fiduciary Net Assets	**$ 141.9**	**$ 158.7**

Fiduciary activities exist when the Department has collected, received, held, or made disposition of assets on behalf of an individual or non-Federal entity. Fiduciary assets are not recognized on the Balance Sheet.

Public Law 89-538 authorized the Department, through the Savings Deposit Program, to collect voluntary contributions from members of the Armed Forces serving in designated areas. These contributions and earned interest are deposited in the U.S. Treasury on behalf of the members.

NOTE 25. OTHER DISCLOSURES

Other Disclosures	2013 – Asset Category			*Dollars in Millions*
As of September 30	Land and Buildings	Equipment	Other	Total
Entity as Lessee – Operating Leases				
Future Payments Due				
Fiscal Year 2014	$ 509.4	$ 35.5	$ 55.7	$ 600.6
Fiscal Year 2015	516.4	35.1	57.4	608.9
Fiscal Year 2016	516.2	35.2	59.4	610.8
Fiscal Year 2017	520.7	35.4	61.4	617.5
Fiscal Year 2018	511.4	35.5	63.6	610.5
After 5 Years	1,287.8	4.3	66.0	1,358.1
Total Future Lease Payments Due	**$ 3,861.9**	**$ 181.0**	**$ 363.5**	**$ 4,406.4**

Operating leases do not transfer the benefits and risks of ownership of capital leases. Payments are expensed over the life of the lease. Office space is the largest component of land and building leases. Future year cost projections use the Consumer Price Index.

Other leases are primarily commercial leases with the general public and include automobile leases.

NOTE 26. RESTATEMENTS

During FY 2013, the Department implemented *SFFAS 43, "Funds from Dedicated Collections: Amending SFFAS 27, Identifying and Reporting Earmarked Funds."* *SFFAS 43* provides clarifying language when classifying funds and additional reporting alternatives for financial statement presentation and note disclosure. Prior year balances were restated to comply with the current presentation. Refer to Note 19, Disclosures on Statement of Changes in Net Position and Note 23, Funds from Dedicated Collections, for additional information.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

Federal financial reporting requires DoD to report on its stewardship over certain resources that cannot be measured in traditional financial reports. These resources do not meet the criteria for assets and liabilities required to be reported in the financial statements, but are important to understand the operations and financial condition of DoD at the date of the financial statements and in subsequent periods.

The Department's stewardship investments are comprised of, and are measured in terms of, expenditures for: (1) Nonfederal Physical Property (federally-financed, but not federally owned); and (2) federally-financed Research and Development (R&D). Information on additional reporting requirements for Nonfederal Physical Property and R&D follows.

NON-FEDERAL PHYSICAL PROPERTY

The Nonfederal Physical Property investments support the purchase, construction, or major renovation of physical property owned by state and local governments. In addition, Nonfederal Physical Property investments include federally-owned physical property transferred to state and local governments. The Department participates in cost-sharing agreements with nonfederal sponsors which are governed under numerous Water Resources Development Acts. The Department's transferred assets include expenditures supporting the design, build, and construction services/management for the missions of commercial navigation, flood/storm damage reduction, hydropower, regulatory, environmental, recreation and water supply.

Non-Federal Physical Property
Department of Defense Consolidated – Non-Federal Physical Property

Yearly Investments in State and Local Governments
For Fiscal Years 2013 through 2009
Dollars in Millions

Categories	2013	2012	2011	2010	2009
Transferred Assets:					
National Defense Mission Related	$ 1,376.8	$ 1,445.4	$ 2,304.5	$ 2,126.2	$ 1,224.7
Funded Assets:					
National Defense Mission Related	$ 11.8	$ 7.7	$ 12.0	$ 0.0	$ 26.7
Total	**$ 1,388.6**	**$ 1,453.1**	**$ 2,316.5**	**$ 2,126.2**	**$ 1,251.4**

INVESTMENTS IN RESEARCH AND DEVELOPMENT

Investment values included in this report are based on R&D expenditures. The R&D programs are classified in the following categories: Basic Research, Applied Research, and Development. The amounts reported in the Investments in R&D table show outlays from FY 2009 – FY 2013 for all DoD Components. The definition for each type of R&D Category and Subcategories are explained below.

Basic Research is the systematic study to gain knowledge or understanding of the fundamental aspects of phenomena and of observable facts without specific applications, processes, or products in mind. Basic Research involves the gathering of a fuller knowledge or understanding of the subject under study. Major outputs are scientific studies and research papers.

Applied Research is the systematic study to gain knowledge or understanding necessary for determining the means by which a recognized and specific need may be met. It is the practical application of such knowledge or understanding for the purpose of meeting a recognized need. This research points toward specific military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Major outputs are scientific studies, investigations, research papers, hardware components, software codes, or limited construction of a weapon system component, to include non-system-specific development efforts. Development takes what has been discovered or learned from basic and applied research and uses it to establish technological feasibility, assessment of operability, and production capability. Development consists of the five stages defined in the Investments in R&D table.

Advanced Technology Development is the systematic use of the knowledge or understanding gained from research and directed toward proof of concept and feasibility rather than directed toward the development of hardware for service use. It employs demonstration activities intended to test a technology or method.

Advanced Component Development and Prototypes evaluates integrated technologies in an operating environment as realistic as possible to assess the performance or cost reduction potential of advanced technology. Programs in this phase are generally system specific. Major outputs of Advanced Component Development and Prototypes are hardware and software components and complete weapon systems ready for operational and developmental testing and field use.

System Development and Demonstration concludes the program or project and prepares it for production. It consists primarily of preproduction efforts, such as logistics and repair studies. Major outputs are weapons systems finalized for complete operational and developmental testing.

Research, Development, Test, and Evaluation Management Support bolsters installations and operations for general research and development use. This category includes costs associated with test ranges, military construction maintenance support for laboratories, operation and maintenance of test aircraft and ships, and studies and analyses furthering the Research and Development program.

Operational Systems Development finances projects, programs or upgrades in engineering and manufacturing development stages which have received approval for production, including production funds that have been budgeted in subsequent fiscal years.

Investments in Research and Development (R&D)
Department of Defense Consolidated

Yearly Investments in Research and Development
For the Current and Four Preceding Fiscal Years

Dollars in Millions

Categories	2013	2012	2011	2010	2009
Basic Research	**$ 1,841.5**	**$ 1,645.3**	**$ 1,816.6**	**$ 1,805.5**	**$ 821.0**
Applied Research	5,477.4	5,819.3	6,848.3	5,758.4	2,604.6
Development					
Advanced Technology Development	4,898.3	5,868.0	6,024.3	6,353.4	2,263.2
Advanced Component Development and Prototypes	12,464.8	13,005.0	13,964.2	14,304.6	12,148.3
System Development and Demonstration	12,524.6	11,926.3	13,882.0	15,156.7	21,501.9
Research, Development, Test and Evaluation Management Support	4,906.5	5,640.5	5,659.2	5,503.6	5,141.3
Operational Systems Development	21,180.9	23,274.6	23,861.3	23,986.2	42,450.6
Totals:	**$ 63,294.0**	**$ 67,179.0**	**$ 72,055.9**	**$ 72,868.4**	**$ 86,930.9**

REQUIRED SUPPLEMENTARY INFORMATION

This section includes the deferred maintenance and repairs information and Statement of Disaggregated Budgetary Resources.

REAL PROPERTY DEFERRED MAINTENANCE AND REPAIRS

Real Property Deferred Maintenance and Repairs
As of September 30, 2013 — *Dollars in Millions*

Property Type	Current Fiscal Year (CFY)		
	1. Plant Replacement Value	2. Required Work (Deferred Maintenance & Repair)	3. Percentage
1. Category 1	$ 948,609	$ 96,679	10%
2. Category 2	$ 28,993	$ 4,425	15%
3. Category 3	$ 21,641	$ 3,480	18%

The deferred maintenance and repairs amount is based on facility Q-ratings found in the Department's real property inventory. Q-ratings represent work needed to bring a facility to a fully serviceable condition with no repair needs. The reported deferred maintenance is the difference between the facility Q-rating and the target Q-rating that represents the acceptable operating condition established by each Component within the Department. The percentage column reflects the percent of total plant replacement value for each category represented by deferred maintenance.

Facility Categories are as follows:

- Category 1: Buildings, Structures, and Utilities that are enduring and required to support an ongoing mission, including multi-use Heritage Assets.
- Category 2: Buildings, Structures, and Utilities that are excess to requirements or planned for replacement or disposal, including multi-use Heritage Assets.
- Category 3: Buildings, Structures, and Utilities that are Heritage Assets.

Military Equipment Deferred Maintenance and Repairs

Depot maintenance requirements for military equipment are developed during the annual budget process. The table below shows the deferred unfunded requirements for the depot maintenance program.

Military Equipment Deferred Maintenance and Repairs *For Fiscal Year Ended September 30, 2013*		
Major Categories	*Dollars in Millions*	
1. Aircraft	$	618.7
2. Automotive Equipment	$	78.4
3. Combat Vehicles	$	61.7
4. Construction Equipment	$	8.7
5. Electronics and Communications Systems	$	138.8
6. Missiles	$	116.6
7. Ships	$	707.6
8. Ordnance Weapons and Munitions	$	64.8
9. All Other Items Not Identified to above Categories	$	366.3
Total	**$**	**2,161.6**

Statement of Disaggregated Budgetary Resources	2013								
For the Years Ended September 30 *Dollars in Millions*	Military Personnel	Procurement	Research, Development, Test and Evaluation	Family Housing/ Military Construction	Military Retirement Benefits	Civil Works	Operations, Readiness & Support	2013 Combined	2012 Combined
Budgetary Resources									
Unobligated balance, brought forward, October 1	$ 2,463.8	$ 63,347.7	$ 15,203.9	$ 16,057.9	$ 0.0	$ 8,610.1	$ 40,009.1	$ 145,692.5	$ 162,271.1
Adjustment to unobligated balance brought forward, Oct 1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Unobligated balance brought forward, October 1, as adjusted	2,463.8	63,347.7	15,203.9	16,057.9	0.0	8,610.1	40,009.1	145,692.5	162,271.1
Recoveries of prior year unpaid obligations	14,394.5	12,838.5	2,665.7	2,431.7	0.0	415.3	30,426.9	63,172.6	65,533.9
Other changes in unobligated balance	(406.3)	(1,770.8)	(825.5)	(301.7)	0.0	0.0	(10,513.6)	(13,817.9)	(12,952.1)
Unobligated balance from prior year budget authority, net	16,452.0	74,415.4	17,044.1	18,187.9	0.0	9,025.4	59,922.4	195,047.2	214,852.9
Appropriations (discretionary and mandatory)	146,740.1	95,634.8	60,131.7	6,995.5	63,194.3	10,431.7	350,407.8	733,535.9	792,178.8
Borrowing Authority (discretionary and mandatory)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contract Authority (discretionary and mandatory)	0.0	0.0	0.0	0.0	0.0	0.0	65,506.0	65,506.0	80,486.2
Spending Authority from offsetting collections (discretionary and mandatory)	1,246.8	2,664.00	7,695.8	5,129.6	128.5	10,821.8	76,026.2	103,712.7	117,242.4
Total Budgetary Resources	**$ 164,438.9**	**$ 172,714.2**	**$ 84,871.6**	**$ 30,313.0**	**$ 63,322.8**	**$ 30,278.9**	**$ 551,862.4**	**$ 1,097,081.8**	**$ 1,204,760.3**
Status of Budgetary Resources:									
Obligations Incurred	161,374.3	120,858.9	70,187.8	15,356.8	63,322.8	17,917.2	504,970.6	953,988.4	1,059,067.8
Unobligated balance, end of year:									
Apportioned	692.7	47,045.0	12,943.3	13,300.0	0.0	11,038.0	24,877.8	109,896.8	115,696.1
Exempt from Apportionment	0.0	0.0	0.0	0.0	0.0	1,319.5	2,727.1	4,046.6	3,976.1
Unapportioned	2,371.9	4,810.3	1,740.5	1,656.2	0.0	4.2	19,286.9	29,870.0	26,020.3
Unobligated balance brought forward, end of year	**$ 3,064.6**	**$ 51,855.3**	**$ 14,683.8**	**$ 14,956.2**	**$ 0.0**	**$ 12,361.7**	**$ 46,891.8**	**$ 143,813.4**	**$ 145,692.5**
Total Budgetary Resources	**$ 164,438.9**	**$ 172,714.2**	**$ 84,871.6**	**$ 30,313.0**	**$ 63,322.8**	**$ 30,278.9**	**$ 551,862.4**	**$ 1,097,801.8**	**$ 1,204,760.3**

Statement of Budgetary Resources *For the Years Ended September 30* *Dollars in Millions*	**2013**								
	Military Personnel	**Procurement**	**Research, Development, Test and Evaluation**	**Family Housing/ Military Construction**	**Military Retirement Benefits**	**Civil Works**	**Operations, Readiness & Support**	**2013 Combined**	**2012 Combined**
Change in Obligated Balance									
Unpaid obligations									
Unpaid obligations, brought forward, October 1 (Gross)	$ 11,975.7	$ 151,469.5	$ 47,712.4	$ 28,530.9	$ 4,643.2	$ 8,374.7	$ 215,863.8	$ 468,570.2	$ 454,926.2
Adjustments to unpaid obligations, start of year	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations incurred	161,374.3	120,858.9	70,187.8	15,356.8	63,322.8	17,917.2	504,970.6	953,988.4	1,059,067.8
Outlays (gross)	(145,219.5)	(115,344.9)	(71,741.2)	(18,288.5)	(62,620.8)	(18,062.6)	(490,743.3)	(922,020.8)	(979,889.9)
Actual Transfers, unpaid obligations (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recoveries of prior year unpaid obligations	(14,394.5)	(12,838.5)	(2,665.7)	(2,431.7)	0.0	(415.3)	(30,426.9)	(63,172.6)	(65,533.9)
Unpaid Obligations, end of year	13,736.0	144,145.0	43,493.3	23,167.5	5,345.2	7,814.0	199,664.2	437,365.2	468,570.2
Uncollected Payment									
Uncollected customer payments from Federal Sources, end of year	(126.9)	(4,239.5)	(5,720.5)	(12,277.8)	0.0	(2,176.7)	(53,412.0)	(77,953.4)	(75,184.3)
Change in uncollected pymts, Fed sources	(60.8)	72.5	98.5	2,302.1	0.0	235.4	(1,898.2)	749.5	(2,769.1)
Actual transfers, uncollected pymts, Fed sources	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Uncollected pymts, Fed sources, end of year	(187.7)	(4,167.0)	(5,622.0)	(9,975.7)	0.0	(1,941.3)	(55,310.2)	(77,203.9)	(77,953.4)
Obligated balance, start of year	**$ 11,848.8**	**$ 147,230.0**	**$ 41,991.9**	**$ 16,253.1**	**$ 4,643.2**	**$ 6,198.0**	**$ 162,451.8**	**$ 390,616.8**	**$ 379,741.9**
Obligated balance, end of year	**$ 13,548.3**	**$ 139,978.0**	**$ 37,871.3**	**$ 13,191.8**	**$ 5,345.2**	**$ 5,872.7**	**$ 144,354.0**	**$ 360,161.3**	**$ 390,616.8**
Budget Authority and Outlays, Net:									
Budget Authority, gross (discretionary and mandatory)	$ 147,986.9	$ 98,298.8	$ 67,827.5	$ 12,125.1	$ 63,322.8	$ 21,253.5	$ 491,940.0	$ 902,754.6	$ 989,907.4
Actual offsetting collections (discretionary and mandatory)	(1,186.1)	(2,741.0)	(7,794.5)	(7,431.7)	(128.5)	(10,963.5)	(137,664.7)	(167,910.0)	(190,586.0)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory)	(60.8)	72.5	98.5	2,302.1	0.0	235.4	(1,898.2)	749.5	(2,769.1)
Anticipated offsetting collections (discretionary and mandatory)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Budget authority, net (discretionary and mandatory)	**$ 146,740.0**	**$ 95,630.3**	**$ 60,131.5**	**$ 6,995.5**	**$ 63,194.3**	**$ 10,525.4**	**$ 352,377.1**	**$ 735,594.1**	**$ 796,552.3**
Outlays, gross (discretionary and mandatory)	$ 145,219.5	$ 115,344.9	$ 71,741.2	$ 18,288.5	$ 62,620.8	$ 18,062.6	$ 490,743.3	$ 922,020.8	$ 979,889.9

Statement of Budgetary Resources *For the Years Ended September 30* *Dollars in Millions*	**2013**								
	Military Personnel	**Procurement**	**Research, Development, Test and Evaluation**	**Family Housing/ Military Construction**	**Military Retirement Benefits**	**Civil Works**	**Operations, Readiness & Support**	**2013 Combined**	**2012 Combined**
Actual offsetting collections (discretionary and mandatory)	(1,186.1)	(2741.0)	(7,794.5)	(7,431.7)	(128.5)	(10,963.5)	(137,664.7)	(167,910.0)	(190,586.0)
Outlays, net (discretionary and mandatory)	144,033.4	112,603.9	63,946.7	10,856.8	62,492.3	7,099.1	353,078.6	754,110.8	789,303.9
Distributed offsetting receipts	0.0	(0.8)	0.0	0.0	(79,998.2)	(806.7)	(1,961.9)	(82,767.6)	(79,238.4)
Agency outlays, net (discretionary and mandatory)	**$ 144,033.4**	**$ 112,603.1**	**$ 63,946.7**	**$ 10,856.8**	**$ (17,505.9)**	**$ 6,292.4**	**$ 351,116.7**	**$ 671,343.2**	**$ 710,065.5**

Combined Statement of Budgetary Resources	Non Budgetary		
For the Years ended September 30 *Dollars in Millions*	Other	2013 Combined	2012 Combined
Budgetary Resources			
Unobligated balance, brought forward, October 1	$ 15.5	$ 15.5	$ 17.5
Unobligated balance brought forward, October 1, as adjusted	$ 15.5	$ 15.5	$ 17.5
Recoveries of prior year unpaid obligations	0.0	0.0	0.0
Other changes in unobligated balance	0.0	0.0	0.0
Unobligated balance from prior year budget authority, net	15.5	15.5	17.5
Appropriations (discretionary and mandatory)	0.0	0.0	0.0
Borrowing Authority (discretionary and mandatory)	26.9	26.9	172.6
Contract Authority (discretionary and mandatory)	0.0	0.0	0.0
Spending Authority from offsetting collections (discretionary and mandatory)	83.2	83.2	62.6
Total Budgetary Resources	**$ 125.6**	**$ 125.6**	**$ 252.7**
Status of Budgetary Resources:			
Obligations Incurred	$ 78.8	$ 78.8	$ 237.2
Unobligated balance, end of year:			
Apportioned	0.0	0.0	1.6
Exempt from Apportionment	0.0	0.0	0.0
Unapportioned	46.8	46.8	13.9
Unobligated balance brought forward, end of year	**$ 46.8**	**$ 46.8**	**$ 15.5**
Total Budgetary Resources	**$ 125.6**	**$ 125.6**	**$ 252.7**

Statement of Disaggregated Budgetary Resources	**Non Budgetary**		
For the Years ended September 30 *Dollars in Millions*	**Other**	**2013 Combined**	**2012 Combined**
Change in Obligated Balance			
Unpaid obligations:			
Unpaid obligations, brought forward, October 1 (gross)	$ 541.8	$ 541.8	$ 569.1
Obligations incurred	78.8	78.8	237.2
Outlays (gross)	(319.9)	(319.9)	(264.5)
Recoveries of prior year unpaid obligations	0.0	0.0	0.0
Unpaid obligations, end of year	300.7	300.7	541.8
Uncollected payments:			
Uncollected pymts, Fed sources, brought forward, October 1	(83.5)	(83.5)	(99.9)
Change in uncollected customer payments, Fed sources	31.1	31.1	16.4
Uncollected pymts, Fed sources, end of year	(52.4)	(52.4)	(83.5)
Obligated balances, start of year	458.3	458.3	469.2
Obligated balance, end of year (net)	**$ 248.3**	**$ 248.3**	**$ 458.3**
Budget Authority and Outlays, Net:			
Budget Authority, gross (discretionary and mandatory)	110.1	110.1	235.2
Actual offsetting collections (discretionary and mandatory)	(126.7)	(126.7)	(92.6)
Change in uncollected customer payments from Federal Sources (discretionary and mandatory)	31.1	31.1	16.4
Anticipated offsetting collections (discretionary and mandatory)	0.0	0.0	0.0
Budget authority, net (discretionary and mandatory)	**$ 14.5**	**$ 14.5**	**$ 159.0**
Outlays, gross (discretionary and mandatory)	319.9	319.9	264.5
Actual offsetting collections (discretionary and mandatory)	(126.7)	(126.7)	(92.6)
Outlays, net (discretionary and mandatory)	193.2	193.2	171.9
Distributed offsetting receipts	0.0	0.0	0.0
Agency outlays, net (discretionary and mandatory)	**$ 193.2**	**$ 193.2**	**$ 171.9**